Standard Chartered 渣打銀行

渣打國際商業銀行承銷「Kookmin Bank U.S.$400,000,000 Floating Rate Notes due 2022」之美元計價普通公司債公告

渣打國際商業銀行(以下稱承銷商)承銷「Kookmin Bank U.S.$400,000,000 Floating Rate Notes due 2022」之美元計價普通公司債(以下稱本公司債)，本公司債發行總金額為美金 400,000,000 元整，由承銷商洽商銷售本公司債金額為美金 400,000,000 元整，茲將銷售辦法公告於後　：

一、證券承銷商名稱、地址、總承銷數量、證券承銷商先行保留洽商銷售數量

承銷商名稱	地址	洽商銷售金額
渣打國際商業銀行股份有限公司	台北市松山區敦化北路 168 號 1 樓	美金　297,000,000 元整
凱基證券股份有限公司	台北市中山區明水路 700 號 3 樓	美金　40,000,000 元整
永豐金證券股份有限公司	台北市八德路二段 306 號 5 樓	美金　15,000,000 元整
臺灣銀行股份有限公司	台北市中正區重慶南路一段 120 號	美金　15,000,000 元整
群益金鼎證券股份有限公司	台北市信義區松仁路 101 號 4 樓	美金　13,000,000 元整
上海商業儲蓄銀行股份有限公司	台北市民權東路一段 2 號	美金　10,000,000 元整
兆豐國際商業銀行股份有限公司	台北市中山區吉林路 100 號	美金　10,000,000 元整

二、承銷總額：總計美金 400,000,000 元整。

三、承銷方式：本公司債將由承銷商包銷並以「洽商銷售」方式出售予投資人。

四、承銷期間：本公司債定價日為 2017 年 5 月 25 日，於 2017 年 6 月 8 日辦理承銷公告並於 2017 年 6 月 9 日發行。

五、承銷價格：承銷商於銷售期間內依本公司債票面金額銷售，以美金貳拾萬元整為最低銷售單位，發行價格為 100%。

六、本公司債主要發行條件　：

（一）發行日：2017 年 6 月 9 日。

（二）到期日：2022 年 6 月 9 日。

（三）發行人評等：A1 by Moody's / A+ by S&P / A by Fitch

（四）受償順位：無擔保主順位債券。

（五）票面金額：美金貳拾萬元整。

（六）票面利率：浮動利率三個月倫敦同業拆放利率 ＋ 95 基點。

（七）付息及還本方式：本債券為浮動利率債券。發行人將每季付息，並於債券到期日一次還本。

（八）營業日：紐約、倫敦、台北及首爾之商業銀行對外營業之日。

（九）準據法：英國法。

（十）債券掛牌處所：中華民國櫃檯買賣中心及新加坡交易所。

七、銷售限制：於台灣銷售僅限財團法人中華民國證券櫃檯買賣中心外幣計價國際債券管理規則第二條之一所定義之專業投資人，另依中華民國證券商業同業公會證券商承銷或再行銷售有價證券處理辦法第三十二條之規定，每一認購人認購數量不得超過該次承銷總數之百分之八十，惟認購人為政府基金者不在此限。

八、通知、繳交價款及交付本公司債方式：　承銷商於發行日前通知投資人繳交價款之方式，投資人於發行日以 Euroclear 或 Clearstream(DVP)完成交割或於發行日將本公司債之認購款項匯入承銷商指定帳戶，承銷商將本公司債撥入投資人所指定之集保帳戶。

九、公開說明書之分送、揭露及取閱方式：如經投資人同意承銷商得以電子郵件方式交付公開說明書，投資人並得至公開資訊觀測站(http://mops.twse.com.tw)或渣打國際商業銀行網址(https://www.sc.com/tw)，凱基證券股份有限公司(https://www.kgieworld.com.tw)，永豐金證券股份有限公司網址(http://www.sinotrade.com.tw)，臺灣銀行股份有限公司(www.bot.com.tw)，群益金鼎證券股份有限公司(https://www.capital.com.tw)，上海商業儲蓄銀行股份有限公司(http://www.scsb.com.tw)，兆豐國際商業銀行股份有限公司(https://www.megabank.com.tw)查詢。

十、會計師對發行人最近三年度財務資料之查核簽證意見

年度	會計師事務所	查核意見
2016 Annual Report	PWC	Fair
2015 Annual Report	PWC	Fair
2014 Annual Report	PWC	Fair

十一、　其他為保護公益及投資人應補充揭露事項:無。

十二、　投資人應詳閱本公司債公開說明書。

Kookmin Bank

Issue of U.S.$400,000,000 Floating Rate Notes due 2022
under the
U.S.$8,000,000,000 Global Medium Term Note Programme

Issue Price: 100 per cent.

Issue Date: 9 June 2017

This information package includes the Offering Circular dated 3 April 2017 in relation to U.S.$8,000,000,000 Global Medium Term Note Programme (the "**Offering Circular**") and the Pricing Supplement dated 25 May 2017 in respect of the Notes (the "**Pricing Supplement,**" together with the Offering Circular, the "**Information Package**").

The Notes will be issued by Kookmin Bank (the "**Issuer**").

Application will be made by the Issuer for the Notes to be listed on the Taipei Exchange ("**TPEx**") in the Republic of China (the "**ROC**").

The Notes will be traded on TPEx pursuant to the applicable rules of TPEx. Effective date of listing and trading of the Notes is on or about 9 June 2017. The day count fraction of the Notes is Act/360.

TPEx is not responsible for the content of the Information Package and no representation is made by TPEx to the accuracy or completeness of the Information Package. TPEx expressly disclaims any and all liability for any losses arising from, or as a result of the reliance on, all or part of the contents of this Information Package. Admission to the listing and trading of the Notes on TPEx shall not be taken as an indication of the merits of the Issuer or the Notes.

The Notes have not been, and shall not be, offered, sold or re-sold, directly or indirectly to investors other than "professional investors" as defined under Paragraph 1 of Article 2-1 of the Taipei Exchange Rules Governing Management of Foreign Currency Denominated International Bonds of the ROC. Purchasers of the Notes are not permitted to sell or otherwise dispose of the Notes except by transfer to a professional investor.

Lead Manager
Standard Chartered Bank (Taiwan) Limited

Co-Managers
Bank of Taiwan
KGI Securities Co. Ltd.
Mega International Commercial Bank Co., Ltd.
Sinopac Securities Corporation
The Shanghai Commercial & Savings Bank
Capital Securities Corporation

PRICING SUPPLEMENT

KB Kookmin Bank

(incorporated with limited liability under the laws of the Republic of Korea)
(acting through its principal office in Korea)

Issue of US$400,000,000 Floating Rate Notes due 2022 under the US$8,000,000,000 Global Medium Term Note Programme

THE NOTES TO WHICH THIS PRICING SUPPLEMENT RELATES (THE **NOTES)** HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT),** OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, UNLESS SO REGISTERED, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. ACCORDINGLY, THE NOTES WILL BE OFFERED AND SOLD ONLY OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATION S.

Sole Bookrunner and Lead Manager

STANDARD CHARTERED BANK (TAIWAN) LIMITED

Co-Managers

BANK OF TAIWAN

KGI SECURITIES CO. LTD.

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.

SINOPAC SECURITIES CORPORATION

THE SHANGHAI COMMERCIAL & SAVINGS BANK

CAPITAL SECURITIES CORPORATION

The date of this Pricing Supplement is 25 May 2017.

PRICING SUPPLEMENT

25 May 2017

KOOKMIN BANK

(acting through its principal office in Korea)
Issue of US$400,000,000 Floating Rate Notes due 2022
under the US$8,000,000,000
Global Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. The terms and conditions of the Notes (the "**Conditions**") shall consist of the terms and conditions set out under the heading "Terms and Conditions of the Notes" in the Offering Circular dated 3 April 2017 (the "Offering Circular"), as amended or supplemented, as the case may be, in this Pricing Supplement. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular.

The Notes have not been and will not be registered under the Financial Services Commission of Korea under the Financial Investment Services and Capital Markets Act of Korea. Accordingly, the Notes may not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea (as such term is defined under the Foreign Exchange Transaction Law of Korea and its Enforcement Decree), except as otherwise permitted under applicable Korean laws and regulations. In addition, during the first year after the issuance of the Notes, the Notes may not be transferred to any resident of Korea other than a Korean QIB who is registered with KOFIA as a Korean QIB and subject to the requirement of monthly reports with the KOFIA of its holding of Korean QIB bonds as defined in the Regulation on Issuance, Public Disclosure, etc. of Securities of Korea, provided that (a) the Notes are denominated, and the principal and interest payments thereunder are made, in a currency other than Korean won, (b) the amount of the Notes acquired by such Korean QIBs in the primary market is limited to less than 20% of the aggregate issue amount of the Notes, (c) the Notes are listed on one of the major overseas securities markets designated by the Financial Supervisory Service of Korea, or certain procedures, such as registration or report with a foreign financial investment regulator, have been completed for offering of the Notes in a major overseas securities market, (d) the one-year restriction on offering, delivering or selling of Notes to a Korean resident other than a Korean QIB is expressly stated in the Notes, the relevant purchase agreement and offering circular and (e) the Company and the Initial Purchasers shall individually or collectively keep the evidence of fulfillment of conditions (a) through (d) above after having taken necessary actions therefor.

1.	Issuer:		Kookmin Bank (acting through its principal office in Korea)
2.	(i)	Series Number:	2017-7
	(ii)	Tranche Number:	1
3.	Specified Currency or Currencies:		United States dollars (**US$**)
4.	Aggregate Nominal Amount:		
	(i)	Series:	US$400,000,000
	(ii)	Tranche:	US$400,000,000
5.	(i)	Issue Price:	100.00% of the Aggregate Nominal Amount
	(ii)	Net Proceeds:	US$399,200,000
6.	(i)	Specified Denominations: (*in the case of Registered Notes, this means the minimum integral amount in which transfers can be*	US$200,000 and, in excess thereof, integral multiples of US$1,000

made)

	(ii)	Calculation Amount:	US$1,000
7.	(i)	Issue Date:	9 June 2017
	(ii)	Interest Commencement Date:	Issue Date
8.	Maturity Date:		Interest Payment Date falling in or nearest to 9 June 2022
9.	Interest Basis:		Three month US$ LIBOR + 0.95% per annum (further particulars specified below)
10.	Redemption/Payment Basis:		Redemption at par
11.	Change of Interest Basis or Redemption/ Payment Basis:		Not Applicable
12.	Put/Call Options:		Not Applicable
13.	Status of the Notes:		Senior
14.	Listing:		Singapore Exchange Securities Trading Limited (the "**Singapore Stock Exchange**") Taipei Exchange Application will be made by the Issuer to the Taipei Exchange (the "**TPEx**") for the listing and trading of the Notes on the TPEx. TPEx is not responsible for the content of this document and the Offering Circular and any amendment and supplement thereto and no representation is made by TPEx to the accuracy or completeness of this document and the Offering Circular and any amendment and supplement thereto. TPEx expressly disclaims any and all liability for any losses arising from, or as a result of the reliance on, all or part of the contents of this document and the Offering Circular and any amendment and supplement thereto. Admission to the listing and trading of the Notes on the TPEx shall not be taken as an indication of the merits of the Issuer or the Notes. The Notes will be traded on the TPEx pursuant to the applicable rules of the TPEx. Effective date of listing of the Notes is on or about 9 June 2017
15.	Method of distribution:		Syndicated

Provisions Relating to Interest (if any) Payable

16.	Fixed Rate Note Provisions		Not Applicable
17.	Floating Rate Note Provisions		Applicable
	(i)	Specified Period(s)/ Specified Interest Payment Dates:	9 September, 9 December, 9 March and 9 June of each year, beginning 9 September 2017, up to and including the Maturity Date
	(ii)	Business Day Convention:	Modified Following Business Day Convention

	(iii) Additional Business Centre(s):	ROC
	(iv) Manner in which the Rate of Interest and Interest Amount are to be determined:	Screen Rate Determination
	(v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):	Not Applicable
	(vi) Screen Rate Determination:	
	—Reference Rate and Relevant Financial Centre:	Reference Rate: Three month US$ LIBOR
		Relevant Financial Centre: London
	—Interest Determination Date(s):	Two London business days prior to the start of each Interest Period
	—Relevant Screen Page:	Reuters screen page “LIBOR01”
18.	Zero Coupon Note Provisions	Not Applicable
19.	Index Linked Note Provisions	Not Applicable
20.	Dual Currency Note Provisions	Not Applicable

Provisions Relating to Redemption

21.	Issuer Call	Not Applicable
22.	Investor Put	Not Applicable
23.	Final Redemption Amount of each Note:	Par
24.	Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(e)):	Condition 7(e) applies

General Provisions Applicable to the Notes

25.	Form of Notes:	Registered Notes:
		Regulation S Global Note (US$400,000,000 nominal amount) registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg
26.	Additional Financial Centre(s) or other special provisions relating to Payment Dates:	Seoul, Taipei, London and New York City
27.	Talons for future Coupons or Receipts to be attached to Definitive Bearer	No

	Notes (and dates on which such Talons mature):	
28.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	Not Applicable
29.	Details relating to Instalment Notes:	
	(i) Instalment Amount(s):	Not Applicable
	(ii) Instalment Date(s):	Not Applicable
30.	Redenomination applicable:	Redenomination not applicable
31.	Other terms or special conditions:	Not Applicable

Distribution

32.	(i) If syndicated, names of Managers:	*Lead Manager* Standard Chartered Bank (Taiwan) Limited *Co-Managers* Bank of Taiwan KGI Securities Co. Ltd. Mega International Commercial Bank Co., Ltd. Sinopac Securities Corporation The Shanghai Commercial & Savings Bank Capital Securities Corporation
	(ii) Stabilising Manager(s) (if any):	Not Applicable
33.	If non-syndicated, name of relevant Dealer:	Not Applicable
34.	U.S. Selling Restrictions:	Reg. S Compliance Category 2, TEFRA not applicable
35.	Additional selling restrictions:	The Notes have not been, and shall not be, offered, sold or re-sold, directly or indirectly to investors other than "professional investors" as defined under the Article 2-1 of the Taipei Exchange Rules Governing Management of Foreign Currency Denominated International Bonds (the "**TPEx Rules**"). Purchasers of the Notes are not permitted to sell or otherwise dispose of the Notes except by transfer to a Professional Investor. Under the TPEx Rules, "professional investors" include "professional institutional investors" as defined under Paragraph 2 of Article 4 of the Financial Consumer Protection Act of the ROC.

Operational Information

36.	Any clearing system(s) other than DTC, Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	Not Applicable
37.	Delivery:	Delivery against payment
38.	Additional Paying Agent(s) (if any):	Not Applicable
39.	Registrar:	The Bank of New York Mellon SA/NV, Luxembourg Branch
40.	Fiscal Agent and Common Depositary:	The Bank of New York Mellon, London Branch
41.	ISIN:	XS1624141435
	Common Code:	162414143

LISTING APPLICATION

This Pricing Supplement comprises the details required to list the issue of Notes described herein pursuant to the US$8,000,000,000 Global Medium Term Note Programme of Kookmin Bank.

The Singapore Stock Exchange assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Pricing Supplement. Approval in-principle from, admission to the Official List of, and quotation of any Notes on, the Singapore Stock Exchange is not to be taken as an indication of the merits of Kookmin Bank, the Programme or the Notes.

TPEx is not responsible for the content of this document and the Offering Circular and any amendment and supplement thereto and no representation is made by TPEx to the accuracy or completeness of this document and the Offering Circular and any amendment and supplement thereto. TPEx expressly disclaims any and all liability for any losses arising from, or as a result of the reliance on, all or part of the contents of this document and the Offering Circular and any amendment and supplement thereto. Admission to the listing and trading of the Notes on the TPEx shall not be taken as an indication of the merits of the Issuer or the Notes. The Notes will be traded on the TPEx pursuant to the applicable rules of the TPEx. Effective date of listing of the Notes is on or about 9 June 2017.

RESPONSIBILITY

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

Signed on behalf of the Issuer:

By:

Duly authorised

TAEK SUNG LEE / Team Head

2829730 / 자본시장부(자금Unit) / 2017-05-26 09:26

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SCHEDULE A – RISK FACTORS RELATING TO THE NOTES AND OTHER INFORMATION

ADDITIONAL RISKS

Application will be made for the listing of the Notes on the TPEx. No assurances can be given as to whether the Notes will be, or will remain, listing on TPEx or whether a trading market for the Notes will develop or as to the liquidity of any such trading market. If the Notes fail to or cease to be listed on the TPEx, certain investors may not invest in, or continue to hold or invest in, the Notes.

ROC TAXATION

The following is a general description of the principal ROC tax consequences for investors receiving interest in respect of, or disposing of, the Notes and is of a general nature based on the Issuers' understanding of current law and practice. It does not purport to be comprehensive and does not constitute legal or tax advice.

This general description is based upon the law as in effect on the date hereof and that the Notes will be issued, offered, sold and re-sold to professional investors as defined under the Taipei Exchange Rules Governing Management of Foreign Currency Denominated International Bonds only. This description is subject to change potentially with retroactive effect. Investors should appreciate that, as a result of changing law or practice, the tax consequences may be otherwise than as stated below. Investors should consult their professional advisers on the possible tax consequences of subscribing for, purchasing, holding or selling the Notes.

Interest on the Notes

As the Issuer of the Notes is not a ROC statutory tax withholder, there is no ROC withholding tax on the interest to be paid by the Issuer on the Notes.

Payments of interest under the Notes to an ROC individual holder are not subject to ROC income tax as such payments received by him/her are not considered to be ROC-sourced income. However, such holder must include the interest in calculating his/her basic income for the purpose of calculating his/her alternative minimum tax ("**AMT**"), unless the sum of the interest and other non- ROC-sourced income received by such holder and the person(s) who is (are) required to jointly file the tax return in a calendar year is below $1 million New Taiwan Dollars ("**NT$**"). If the amount of the AMT exceeds the annual income tax calculated pursuant to ROC Income Basic Tax Act (also known as the AMT Act), the excess becomes such holder's AMT payable.

ROC corporate holders must include the interest receivable under the Notes as part of their taxable income and pay income tax at a flat rate of 17% (unless the total taxable income for a fiscal year is under NT$120,000), as they are subject to income tax on their worldwide income on an accrual basis. The AMT is not applicable.

Sale of the Notes

In general, the sale of corporate bonds or financial bonds is subject to 0.1% securities transaction tax ("**STT**") on the transaction price. However, Article 2-1 of the Securities Transaction Tax Act prescribes that STT will cease to be levied on the sale of corporate bonds and financial bonds from 1 January 2010 to 31 December 2026. Therefore, the sale of the Notes will be exempt from STT if the sale is conducted on or before 31 December 2026. Starting from 1 January 2027, any sale of the Notes will be subject to STT at 0.1 % of the transaction price, unless otherwise provided by the tax laws that may be in force at that time.

Capital gains generated from the sale of bonds are exempt from income tax. Accordingly, ROC individual and corporate holders are not subject to income tax on any capital gains generated from the sale of the Notes. In addition, ROC individual holders are not subject to AMT on any capital gains generated from the sale of the Notes. However, ROC corporate holders should include the capital gains in calculating their basic income for the purpose of calculating their AMT. If the amount of the AMT exceeds the annual income tax calculated pursuant to the ROC Income Basic Tax Act (also known as the AMT Act), the excess becomes the ROC corporate holders'

AMT payable. Capital losses, if any, incurred by such holders could be carried over 5 years to offset against capital gains of same category of income for the purposes of calculating their AMT.

Non-ROC corporate holders with a fixed place of business (e.g., a branch) or a business agent in the ROC are not subject to income tax on any capital gains generated from the sale of the Notes. However, their fixed place of business or business agent should include any such capital gains in calculating their basic income for the purpose of calculating AMT.

As to non-ROC corporate holders without a fixed place of business and a business agent in the ROC, they are not subject to income tax or AMT on any capital gains generated from the sale of the Notes.

ROC SETTLEMENT AND TRADING

Investors with a securities book-entry account with an ROC securities broker and a foreign currency deposit account with an ROC bank, may request the approval of the Taiwan Depositary & Clearing Corporation ("**TDCC**") for the settlement of the Notes through the account of TDCC with Euroclear or Clearstream, Luxembourg and if such approval is granted by TDCC, the Notes may be so cleared and settled. In such circumstances, TDCC will allocate the respective book-entry interest of such investor in the Notes position to the securities book-entry account designated by such investor in the ROC. The Notes will be traded and settled pursuant to the applicable rules and operating procedures of TDCC and the TPEx as domestic bonds.

In addition, an investor may apply to TDCC (by filing in a prescribed form) to transfer the Notes in its own account with Euroclear or Clearstream, Luxembourg to the TDCC account with Euroclear or Clearstream, Luxembourg for trading in the domestic market or vice versa for trading in overseas markets.

For such investors who hold their interest in the Notes through an account opened and held by TDCC with Euroclear or Clearstream, Luxembourg, distributions of principal and/or interest for the Notes to such holders may be made by payment services banks whose systems are connected to TDCC to the foreign currency deposit accounts of the holders. Such payment is expected to be made on the second Taiwanese business day following TDCC’s receipt of such payment (due to time difference, the payment is expected to be received by TDCC one Taiwanese business day after the distribution date). However, when the holders will actually receive such distributions may vary depending upon the daily operations of the ROC banks with which the holder has the foreign currency deposit account.

Important Notice

THIS DOCUMENT IS NOT FOR DISTRIBUTION TO ANY PERSON OTHER THAN TO INVESTORS WHO ARE EITHER (1) QIBS (AS DEFINED BELOW) UNDER RULE 144A OR (2) PERSONS OTHER THAN U.S. PERSONS (AS DEFINED IN REGULATION S) WITH ADDRESSES OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following notice before continuing. The following notice applies to the attached offering circular dated April 3, 2017 (the **Offering Circular**), whether received by email, accessed from an internet page or otherwise received as a result of electronic communication and you are therefore advised to read this notice carefully before reading, accessing or making any other use of the Offering Circular. In reading, accessing or making any other use of the Offering Circular, you agree to be bound by the following terms and conditions and each of the restrictions set out in the Offering Circular, including any modifications made to them from time to time, each time you receive any information from us as a result of such access.

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

THE SECURITIES ARE BEING OFFERED AND SOLD ONLY: (1) WITHIN THE UNITED STATES OR TO A U.S. PERSON IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") ONLY TO PERSONS THAT ARE "QUALIFIED INSTITUTIONAL BUYERS" ("QIBS") (AS DEFINED IN RULE 144A), ACTING FOR THEIR OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QIB, AND (2) OUTSIDE THE UNITED STATES TO PERSONS OTHER THAN U.S. PERSONS ("U.S. PERSONS") (AS DEFINED IN REGULATION S) IN OFFSHORE TRANSACTIONS IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S. WITHIN THE UNITED KINGDOM, THE OFFERING CIRCULAR IS DIRECTED ONLY AT PERSONS WHO (A) HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (THE "FPO"); (B) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(a) TO (d) OF THE FPO; OR (C) ARE OTHER PERSONS TO WHOM THE OFFERING CIRCULAR MAY BE LAWFULLY COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS RELEVANT PERSONS). OUTSIDE OF THE UNITED KINGDOM, THE OFFERING CIRCULAR IS BEING DIRECTED ONLY AT PERSONS WHO MAY LAWFULLY RECEIVE IT. FOR A MORE COMPLETE DESCRIPTION OF RESTRICTIONS ON OFFERS AND SALES, SEE "SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS" IN THE OFFERING CIRCULAR.

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

Confirmation of your Representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the offered securities described therein, (1) each prospective investor in respect of the securities being offered pursuant to Rule 144A must be a QIB, (2) each prospective investor in respect of the securities being offered outside of the United States in an offshore transaction pursuant to Regulation S must be a person other than a U.S. Person and (3) each prospective investor in respect of the securities being offered in the United Kingdom must be a Relevant Person. By accepting the e-mail and accessing, reading or making any other use of the attached Offering Circular, you shall be deemed to have represented to BNP Paribas, Citigroup Global Markets Inc., Crédit Agricole Corporate and Investment Bank, Credit Suisse Securities (Europe) Limited, The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities plc, Merrill Lynch International, MUFG Securities EMEA plc, Mizuho Securities USA LLC, Nomura International plc, Société Générale, Standard Chartered Bank and UBS AG Hong Kong Branch (the **Dealers**) being the sender of the attached, that (1) in respect of the securities being offered pursuant to Rule 144A, you are (or the person you represent is) a QIB, and that the electronic mail (or e-mail) address to which, pursuant to your request, the Offering Circular has been delivered by electronic transmission is utilised by someone who is a QIB, or (2) in respect of the securities being offered outside of the United States in an offshore transaction pursuant to Regulation S, you are (or the person you represent is) a person other than a U.S. Person, and that the electronic mail (or e-mail) address to which, pursuant to your request, the Offering Circular has been delivered by electronic transmission is utilised by a person other than a U.S. Person, (3) in respect of the securities being offered in the United Kingdom, you are (or the person you represent is) a Relevant Person, and (4) you are a person to whom the Offering Circular may be delivered in accordance with the restrictions set out in the section entitled "Subscription and Sale and Transfer and Selling Restrictions" in the Offering Circular.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of this Offering Circular to any other person. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

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

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of the Dealers, the Issuer or any person who controls any of them or is a director, officer, employee or agent of any of them nor any affiliate of any such person accepts any liability or responsibility whatsoever to the fullest extent permitted by law in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Dealers.

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.

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

Offering Circular

KB Kookmin Bank

(incorporated with limited liability under the laws of the Republic of Korea)
(acting through its principal office in Korea and any overseas branch)

US$8,000,000,000
Global Medium Term Note Programme

This Offering Circular supersedes and replaces in its entirety the offering circular dated June 10, 2016 in relation to the US$8,000,000,000 Global Medium Note Programme (the Programme, as amended, supplemented or restated from time to time) of Kookmin Bank (the **Issuer** or the **Bank**). The Programme was originally established on April 18, 1996. Any Notes (as defined below) issued under the Programme on or after the date of this Offering Circular are issued subject to the provisions described herein. This Offering Circular does not affect any Notes issued before the date of this Offering Circular.

Under the Programme, the Issuer may from time to time issue notes in bearer and/or registered form (respectively, **Bearer Notes and Registered Notes** and, together, the **Notes**, which expression shall include Senior Notes and Subordinated Notes (as defined herein)) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

In relation to any Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes, the Issuer may act through its principal office in Korea or through any of its overseas branches in each case as indicated in the applicable Pricing Supplement (as defined below).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed US$8,000,000,000 (or its equivalent in other currencies calculated as described herein).

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Summary of the Programme*" and any additional Dealer appointed under the Programme from time to time, which appointment may be for a specific issue or on an ongoing basis (each, a **Dealer** and, together, the **Dealers**). References in this Offering Circular to the relevant Dealer shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks, see "*Risk Factors.*"

Approval in-principle has been granted by the Singapore Exchange Securities Trading Limited (the **Singapore Stock Exchange**) for the listing and quotation of Notes that may be issued pursuant to the Programme and which are agreed, at or prior to the time of issue thereof, to be so listed on the Singapore Stock Exchange. Permission for such listing and quotation will be granted when such Notes have been admitted to the Official List of the Singapore Stock Exchange. The Singapore Stock Exchange assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of any Notes on, the Singapore Stock Exchange are not to be taken as an indication of the merits of the Issuer, the Programme or the Notes. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche of Notes will be set out in a pricing supplement (the Pricing Supplement) which, with respect to Notes to be listed on the Singapore Stock Exchange, will be delivered to the Singapore Stock Exchange before the date of listing of the Notes of such Tranche.

The Programme provides that Notes may be listed or admitted to trading on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**), and may not be offered or sold in the United States or to, or for the benefit of, U.S. persons unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. See "*Form of the Notes*" for a description of the manner in which Notes will be issued. The Notes are subject to certain restrictions on transfer. See "*Subscription and Sale and Transfer and Selling Restrictions.*"

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes intended to be listed on the Singapore Stock Exchange) a supplementary Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Arranger

MUFG

Dealers

BNP PARIBAS	**BofA Merrill Lynch**	**Citigroup**
Crédit Agricole CIB	**Credit Suisse**	**HSBC**
J.P. Morgan	**Mizuho Securities**	**MUFG**
Nomura	**Société Générale Corporate & Investment Banking**	**Standard Chartered Bank**
	UBS	

The date of this Offering Circular is April 3, 2017

The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information which is material in the context of the issuance and offering of Notes, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading. The Issuer accepts responsibility accordingly.

The Singapore Stock Exchange assumes no responsibility for the contents of this Offering Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*" below). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger or the Dealers as to the authenticity, origin, validity, accuracy or completeness of, or any errors in or omissions from, the information or statements contained or incorporated in this Offering Circular or any supplement hereto or any other information provided by the Issuer in connection with the Programme. Neither the Arranger nor the Dealers accept any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer in connection with the Programme.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers.

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

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arranger and the Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, inter alia, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Notes.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Arranger, and the Dealers do not represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arranger, or the Dealers which would permit a public offering of any Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom), Japan, Korea, Singapore, Hong Kong and Canada. See "*Subscription and Sale and Transfer and Selling Restrictions*."

This Offering Circular has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make any offer within the European Economic Area of Notes which are the subject of the offering contemplated in this Offering Circular may only do so (i) in circumstances in which no obligation arises for the Issuer or any of the Dealers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer, or (ii) if a prospectus for such offer has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State and (in either case) published, all in accordance with the Prospectus Directive, provided that any such prospectus has subsequently been completed by final terms which specify that offers may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State and such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus or final terms, as applicable, and the Issuer has consented in writing to its use for the purpose of such offer. Except to the extent sub-paragraph (ii) above may apply, neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer. For the purposes of this provision, the expression **Prospectus Directive** means Directive 2003/71/EC, and includes any relevant implementing measure in the Relevant Member State.

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

None of the Arranger, the Dealers or the Issuer makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

U.S. Information

This Offering Circular may be submitted on a confidential basis in the United States to a limited number of QIBs or Institutional Accredited Investors (each as defined under "*Form of the Notes*") for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and the Treasury regulations promulgated thereunder.

Registered Notes may be offered or sold within the United States only to QIBs or to Institutional Accredited Investors, in either case in transactions exempt from registration under the Securities Act. Each U.S. purchaser of Registered Notes is hereby notified that the offer and sale of any Registered Notes to it may be being made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act (Rule 144A).

Purchasers of Definitive IAI Registered Notes will be required to execute and deliver an IAI Investment Letter (as defined under "*Terms and Conditions of the Notes*"). Each purchaser of holder of Definitive IAI Registered Notes, Notes represented by a Rule 144A Global Note or any Notes issued in registered form in exchange or substitution therefor (together, Legended Notes) will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in "*Subscription and Sale and Transfer and Selling Restrictions*." Unless otherwise stated, terms used in this paragraph have the meanings given to them in "*Form of the Notes*."

Notice to Persons in the United Kingdom

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

Notice to Persons in Canada

The Notes are being offered in Canada on a prospectus-exempt, private placement basis only, and may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions (NI 45-106) or subsection 73.3(1) of the Securities Act (Ontario), and that are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Prospective Canadian investors should read the section entitled "*Subscription and Sale and Transfer and Selling Restrictions—Selling Restrictions—Canada*" in this Offering Circular for additional information.

Service of Process and Enforcement of Civil Liabilities

The Issuer is a corporation organised under the laws of Korea. All of the officers and directors named herein reside outside the United States and all or a substantial portion of the assets of the Issuer and of such officers and directors are located outside the United States. As a result, it may not be possible for investors to effect service of process outside Korea upon the Issuer or such persons, or to enforce judgments against them obtained in courts outside Korea predicated upon civil liabilities of the Issuer or such directors and officers under laws other than Korean law, including any judgment predicated upon United States federal securities laws. The Issuer has been advised by Kim & Chang, its counsel, that there is doubt as to the enforceability in Korea in original actions or in actions for enforcement of judgments of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States.

Presentation of Financial and Other Information

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

Unless otherwise stated, the financial data contained in this Offering Circular as of and for the years ended December 31, 2014, 2015 and 2016 are derived from the Issuer's audited consolidated financial statements included herein which have been prepared in accordance with Korean IFRS.

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

For convenience only, certain Won amounts in this Offering Circular have been translated into U.S. dollars. The table below sets out, for the periods and dates indicated, information concerning the base rate under the market average exchange rate system, announced by the Seoul Money Brokerage Services, Ltd., between U.S. dollars and Won rounded to the nearest tenth of one Won (the **Market Average Exchange Rate**). Unless indicated otherwise, the translations of Won into U.S. dollars in this Offering Circular have been made at the rate of ₩1,208.5 to US$1.00, which was the Market Average Exchange Rate as of December 31, 2016. No representation is made that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate, or at all.

Years ended December 31,	Low	High	Average(1)	Period-end
		(Won per US$1.00)		
2012	1,071.1	1,181.8	1,126.9	1,071.1
2013	1,051.5	1,159.1	1,095.0	1,055.3
2014	1,008.9	1,118.3	1,053.2	1,099.2
2015	1,068.1	1,203.1	1,131.5	1,172.0
2016	1,093.2	1,240.9	1,160.5	1,208.5
October	1,102.0	1,145.2	1,125.3	1,145.2
November	1,137.5	1,183.6	1,161.6	1,168.5
December	1,159.1	1,208.5	1,182.3	1,208.5
2017 (through March 31)	1,112.5	1,208.5	1,154.3	1,116.1
January	1,157.8	1,208.5	1,185.1	1,157.8
February	1,131.0	1,165.5	1,144.9	1,132.1
March	1,112.5	1,158.2	1,134.8	1,116.1

Source: Seoul Money Brokerage Services, Ltd.

Note:

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular:

(a) the most recently published audited (if available) consolidated and separate annual financial statements and, if published later, the most recently published unaudited consolidated and separate interim financial statements (if any) of the Issuer (see "*General Information*" for a description of the financial statements currently published by the Issuer); and

(b) all supplements or amendments to this Offering Circular circulated by the Issuer from time to time, save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

Separate financial statements are financial statements as presented by the parent (an investor with control of a subsidiary) or an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or in accordance with International Financial Reporting Standards 9, *Financial Instruments*.

The Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its registered offices set out at the end of this Offering Circular. In addition, such documents will be available from the principal office in London of The Bank of New York Mellon, London Branch (the **Principal Paying Agent**) for Notes listed on the Singapore Stock Exchange.

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

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, a new Offering Circular will be prepared.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are "restricted securities" within the meaning of the Securities Act, the Issuer has undertaken in a deed poll dated May 14, 2009 (the **Deed Poll**) to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, the Issuer is neither a reporting company under Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the **Exchange Act**), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

GENERAL DESCRIPTION OF THE PROGRAMME

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

This Offering Circular and any supplement will only be valid for the offering of Notes during the period of 12 months from the date of this Offering Circular in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed US$8,000,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

(a) the U.S. dollar equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the Notes, described under "*Form of the Notes*" below) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the U.S. dollar against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;

(b) the U.S. dollar equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the Notes, described under "*Form of the Notes*" below) shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and

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

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" below shall have the same meanings in this summary.

Issuer:	Kookmin Bank acting through its principal office in Korea or through any of its overseas branches, in each case, as indicated in the applicable Pricing Supplement.
Description:	Global Medium Term Note Programme
Arranger:	MUFG Securities EMEA plc
Dealers:	BNP Paribas, Citigroup Global Markets Inc., Credit Agricole Corporate and Investment Bank, Credit Suisse Securities (Europe) Limited, The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities plc, Merrill Lynch International, MUFG Securities EMEA plc, Mizuho Securities USA LLC, Nomura International plc, Société Géneralé, Standard Chartered Bank and UBS AG Hong Kong Branch and any other Dealers appointed in accordance with the Programme Agreement.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale and Transfer and Selling Restrictions*"). **Notes having a maturity of less than one year** Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent. See "*Subscription and Sale and Transfer and Selling Restrictions*."
Principal Paying Agent, Exchange Agent and Transfer Agent:	The Bank of New York Mellon, London Branch
Registrar and Transfer Agent:	The Bank of New York Mellon
Paying Agent and Transfer Agent:	The Bank of New York Mellon SA/NV, Luxembourg Branch
Programme Size:	Up to US$8,000,000,000 (or its equivalent in other currencies calculated as described under "*General Description of the Programme*") outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.

Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency as may be agreed between the Issuer and the relevant Dealer.
Redenomination:	The applicable Pricing Supplement may provide that certain Notes may be redenominated in euro.
Maturities:	Such maturities as may be agreed between the Issuer and the relevant Dealer and as indicated in the applicable Pricing Supplement, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency provided that, at the date of this Offering Circular, (i) Lower Tier II Subordinated Notes shall have a minimum maturity of five years and (ii) Upper Tier II Subordinated Notes shall have a minimum maturity of 10 years and may not be perpetual.
Issue Price:	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	Notes will be issued in bearer or registered form as described in "*Form of the Notes*" below. Registered Notes will not be exchangeable for Bearer Notes and vice versa.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer (as indicated in the applicable Pricing Supplement) and on redemption, and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined either: (i) on the same basis as the floating rate under a notional interest-rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer. The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each series of Floating Rate Notes.
Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree (as indicated in the applicable Pricing Supplement) to the extent permitted by applicable law.

Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:	Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both (as indicated in the applicable Pricing Supplement). Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree (as indicated in the applicable Pricing Supplement) to the extent permitted by applicable law.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest other than in the case of late payment.
Redemption:	The applicable Pricing Supplement will indicate either that the Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer (only with, in the case of Subordinated Notes, the prior approval of the Financial Supervisory Service of Korea (the **FSS**) or of such other relevant regulatory authorities in Korea) and/ or (except in the case of Subordinated Notes) the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer. Subordinated Notes may not be redeemed less than five years after the relevant Issue Date except for taxation reasons or following an Event of Default. The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.
Denomination of Notes:	Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer and as indicated in the applicable Pricing Supplement save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. See "*—Certain Restrictions—Notes having a maturity of less than one year*" above. Unless otherwise stated in the applicable Pricing Supplement, the minimum denomination of each Definitive IAI Registered Note will be US$500,000 or its approximate equivalent in other Specified Currencies.

	Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution (see "*—Certain Restrictions—Notes having a maturity of less than one year*" above), and save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).
Taxation:	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction, except as otherwise provided in Condition 8. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted. All payments in respect of the Notes will be made subject to any withholding or deduction required pursuant to FATCA, as provided in Condition 6.
Negative Pledge:	The terms of the Senior Notes will contain a negative pledge provision as further described in Condition 4.
Cross Acceleration:	The terms of the Senior Notes will contain a cross-acceleration provision as further described in Condition 10.
Status of the Senior Notes:	The Senior Notes will constitute direct, unconditional, and (subject to Condition 4) unsecured obligations of the Issuer which will rank *pari passu* among themselves and will rank at least *pari passu* with all other present and future unsecured (subject to Condition 4) and unsubordinated obligations of the Issuer, save for such as may be preferred by mandatory provisions of applicable law.
Status of the Subordinated Notes:	The Subordinated Notes will constitute direct, general, unsecured and subordinated obligations of the Issuer which will at all times rank *pari passu* and rateably without any preference among themselves and in priority to claims of holders of all classes of equity (including holders of preference shares (if any)) of the Issuer. The rights of holders of Subordinated Notes will be subordinated in right of payment in the manner provided in Condition 3(b).
Listing:	Approval in-principle has been granted for the listing and quotation of Notes that may be issued under the Programme and which are agreed, at or prior to the time of issue thereof, to be listed on the Singapore Stock Exchange. Permission for such listing and quotation will be granted when such Notes have been admitted to the Official List of the Singapore Stock Exchange. For so long as any Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, such Notes will be traded in a minimum board lot size of S$200,000 (or its equivalent in foreign currencies). The Notes

	may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. Unlisted Notes may also be issued The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).
Governing Law:	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and will be construed in accordance with, English law except for Condition 3(b) ("*Status of the Subordinated Notes*") which will be governed by, and construed in accordance with, Korean law.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom), Japan, Korea, Singapore, Hong Kong, Canada and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See "*Subscription and Sale and Transfer and Selling Restrictions*."

FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. Bearer Notes will be issued outside the United States in reliance on Regulation S under the Securities Act (**Regulation S**) and Registered Notes will be issued both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States in reliance on Rule 144A or Regulation D under the Securities Act.

Bearer Notes

Each Tranche of Bearer Notes will be initially issued in the form of either a temporary bearer global note (a **Temporary Bearer Global Note**) or a permanent bearer global note (a **Permanent Bearer Global Note**) as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depositary (the **Common Depositary**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream, Luxembourg**). Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Bearer Global Note of the same Series or (ii) for definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Notes. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification.

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (i) not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent as described therein or (ii) only upon the occurrence of an Exchange Event. For these purposes, Exchange Event means that (i) an Event of Default (as defined in Condition 10) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention to cease business permanently or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Bearer Global Note in definitive form (provided that, in certain circumstances where the Notes are held through Euroclear and/or Clearstream, Luxembourg, such adverse tax consequences are as a result of a change in, or amendment to, the laws or regulations (taxation or otherwise) in, or of, Korea). The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all Bearer Notes which have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States will initially be represented by a global note in registered form (a **Regulation S Global Note**) which will be deposited with a custodian for, and registered in the name of a nominee of, the Depository Trust Company (**DTC**) for the accounts of Euroclear and Clearstream, Luxembourg. Prior to expiry of the Distribution Compliance Period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

The Registered Notes of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions (i) to "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act (**QIBs**) or (ii) to "accredited investors" as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act that are institutions (**Institutional Accredited Investors**) who agree to purchase the Notes for their own account and not with a view to the distribution thereof. The Registered Notes of each Tranche sold to QIBs will be represented by a global note in registered form (a Rule 144A Global Note and, together with a Regulation S Global Note, the Registered Global Notes) which will be deposited with a custodian for, and registered in the name of a nominee of, DTC.

Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

The Registered Notes of each Tranche sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof (**Definitive IAI Registered Notes**). Unless otherwise set forth in the applicable Pricing Supplement, Definitive IAI Registered Notes will be issued only in minimum denominations of US$500,000 and integral multiples of US$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Notes will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under "*Subscription and Sale and Transfer and Selling Restrictions*." Institutional Accredited Investors that hold Definitive IAI Registered Notes may elect to hold such Notes through DTC, but transferees acquiring the Notes in transactions exempt from Securities Act registration pursuant to Regulation S or Rule 144 under the Securities Act (if available) may do so upon satisfaction of the requirements applicable to such transfer as described under "*Subscription and Sale and Transfer and Selling Restrictions*." The Rule 144A Global Note and the Definitive IAI Registered Notes will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 6(e)) as the registered holder of the Registered Global Notes. None of the Issuer, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 6(e)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, Exchange Event means that (i) an Event of Default has occurred and is continuing, (ii) DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Notes and no successor or alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act, (iii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention to cease business permanently or have in fact done so and, in any such case, no successor clearing system is available or (iv) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Registered Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iv) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note or in the form of a Definitive IAI Registered Note and Definitive IAI Registered Notes may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such Notes in the form of an interest in a Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. Registered Notes are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions. See "*Subscription and Sale and Transfer and Selling Restrictions*."

General

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CUSIP and CINS number which are different from the common code, ISIN, CUSIP and CINS assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Bearer Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions Noteholder and holder of Notes and related expressions shall be construed accordingly.

So long as DTC or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and such Notes except to the extent that in accordance with DTC's published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Any reference herein to Euroclear and/or Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or otherwise approved by the Issuer, the Principal Paying Agent and the Registrar.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 10. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then holders of interest in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear, Clearstream, Luxembourg and DTC on and subject to the terms of the deed of covenant dated May 14, 2009 and executed by the Issuer (the Deed of Covenant). In addition, holders of interests in such Global Note credited to their accounts with DTC may require DTC to deliver Definitive Notes in registered form in exchange for their interest in such Global Note in accordance with DTC's standard operating procedures.

For so long as the Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, in the event that the Global Note is exchanged for definitive Notes, and unless the Issuer obtains an exemption from the Singapore Stock Exchange, the Issuer will appoint and maintain a Paying Agent in Singapore where the Notes may be presented or surrendered for payment or redemption and make an announcement of such exchange through the Singapore Stock Exchange, and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the Paying Agent in Singapore.

Summary of Provisions Relating to Definitive Registered Notes

Registered Notes of a Series that are initially offered and sold in the United States pursuant to Section 4(a)(2) of the Securities Act in private placement transactions exempt from registration under the Securities Act to Institutional Accredited Investors who execute and deliver to the Registrar an IAI Investment Letter substantially in the form attached to the Agency Agreement will be issued only as Definitive Registered Notes, registered in the name of the purchaser thereof or its nominee. Unless otherwise set forth in the applicable Pricing Supplement, such Definitive Registered Notes will be issued only in minimum denominations of US$500,000 and integral multiples of US$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Such Definitive Registered Notes issued to Institutional Accredited Investors will be subject to the restrictions on transfer set forth therein and in the Agency Agreement and will bear the applicable legend regarding such restrictions set forth under "*Subscription and Sale and Transfer and Selling Restrictions*" below. Institutional Accredited Investors that hold Definitive Registered Notes may not elect to hold such Notes through DTC, but transferees acquiring such Notes in transactions exempt from registration under the Securities Act pursuant to Rule 144A, Regulation S or Rule 144 under the Securities Act (if available) may take delivery thereof in the form of an interest in a Rule 144A Global Note or a Regulation S Global Note, as the case may be, representing Notes of the same Series.

FORM OF APPLICABLE PRICING SUPPLEMENT

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

[*Date*]

KOOKMIN BANK

(acting through its [principal office in Korea/[●] Branch])
Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the US$8,000,000,000
Global Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. The terms and conditions of the Notes (the "Conditions") shall consist of the terms and conditions set out under the heading "Terms and Conditions of the Notes" in the Offering Circular dated [●], 2017 (the "Offering Circular"), as amended or supplemented, as the case may be, in this Pricing Supplement. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular.

The Notes have not been registered with the Financial Services Commission of Korea under the Financial Investment Services and Capital Markets Act of Korea. Accordingly, the Notes may not be offered, delivered, or sold directly or indirectly in Korea or to any resident of Korea (as defined in the Foreign Exchange Transaction Act 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.

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

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Notes (the "Conditions") set forth in the Offering Circular dated [*original date*]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [●], 2017, save in respect of the Conditions which are extracted from the Offering Circular dated [*original date*] and are attached hereto.]

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

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

1.	Issuer:	Kookmin Bank (acting through its [principal office in Korea/ [●] Branch])
2.	(i) Series Number:	[●]
	(ii) Tranche Number:	[●]
	(iii) Date on which the Notes will be consolidated and form a single Series:	The Notes will be consolidated and form a single Series with [*identify earlier Tranches*] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [●] below, which is expected to occur on or about [*date*]] [Not Applicable]

3. Specified Currency or Currencies:	[●]
4. Aggregate Nominal Amount:	
(i) Series:	[●]
(ii) Tranche:	[●]
5. [(i)] Issue Price:	[●]% of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
[(ii)] [Net Proceeds:]	[●]
(Required only for listed issues)	
6. (i) Specified Denominations: (*in the case of Registered Notes, this means the minimum integral amount in which transfers can be made*)	[●] [●] (N.B. Notes must have a minimum denomination of €100,000 (or equivalent) in order to benefit from Transparency Directive exemptions in respect of wholesale securities and in order to benefit from the wholesale exemption set out in Article 3.2(d) of the Prospectus Directive in that Member State.) (*Note—where Bearer Notes with multiple denominations above US$200,000 or equivalent are being used the following sample wording should be followed:* *"US$200,000 and integral multiples of US$1,000 in excess thereof up to and including US$299,000. No Notes in definitive form will be issued with a denomination above US$299,000."*) (*N.B. If an issue of Notes is (i) NOT admitted to trading on a European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €100,000 minimum denomination is not required.*)
(ii) Calculation Amount:	[●] (*If there is only one Specified Denomination, insert that Specified Denomination. If there is more than one Specified Denomination, insert the highest common factor. N.B. there must be a common factor in the case of two or more Specified Denominations*)
7. (i) Issue Date:	[●] [Specify/Issue Date/Not Applicable]
(ii) Interest Commencement Date:	[●] (*N.B. An Interest Commencement Date will not be relevant for certain Notes, for example, Zero Coupon Notes*)
8. Maturity Date:	[*Fixed rate—specify date/Floating rate—Interest Payment Date falling in or nearest to [specify month]] (N.B.: (i) Lower Tier II Subordinated Notes shall have a minimum maturity of five years and (ii) Upper Tier II Subordinated Notes shall have a minimum maturity of 10 years and may not be perpetual*)

9. Interest Basis:	[[●]% Fixed Rate] [[Specify Reference Rate] +/- [●]% Floating Rate] [Zero Coupon] [Index Linked Interest] [Dual Currency Interest] [*specify other*] (further particulars specified below)
10. Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Instalment] [specify other]
11. Change of Interest Basis or Redemption/ Payment Basis:	[*Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis*]
12. Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)]
13. Status of the Notes:	[Senior/Subordinated] [*If Subordinated, specify either Upper Tier II Subordinated or Lower Tier II Subordinated*]
14. Listing:	[Singapore/specify other/None]
15. Method of distribution:	[Syndicated/Non-syndicated]
16. Use of Proceeds:	[●] [*If different from the use of proceeds specified in the Offering Circular*]

Provisions Relating to Interest (if any) Payable

17. **Fixed Rate Note Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i) Rate(s) of Interest:	[●]% per annum payable in arrear on each Interest Payment Date
(ii) Interest Payment Date(s):	[●] in each year up to and including the Maturity Date (*Amend appropriately in the case of irregular coupons*)
(iii) Fixed Coupon Amount(s): (*Applicable to Notes in definitive form*)	[●] per Calculation Amount**
(iv) Broken Amount(s): (*Applicable to Notes in definitive form*)	[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]. **Note that for certain Hong Kong dollar denominated fixed Rate Notes the Interest Payment Dates are subject to modification and the following words should be added: "provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day. For these purposes, Business Day means a day on which commercial banks and foreign exchange markets settle payments and are open for general business*

	*(including dealing in foreign exchange and currency deposits) in Hong Kong and [●].”** For Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following wording is appropriate: “Each Fixed Coupon Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the actual number of days in the Accrual Period (as defined in Condition 5(a)) divided by 365 and rounding the resultant figure to the nearest HK$0.01, HK$0.005 being rounded upwards.”*
(v) Day Count Fraction:	[Actual/Actual (ICMA) 30/360/specify other]
(vi) Determination Date[s]:	[●] in each year [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon (N.B.: This will need to be amended in the case of regular interest payment dates which are not of equal duration) (N.B.: Only relevant where Day Count Fraction is Actual/Actual (ICMA))*]
[(vii)] Other terms relating to the method of calculating interest for Fixed Rate Notes:	[None/Give details]
18. **Floating Rate Note Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i) Specified Period(s)/ Specified Interest Payment Dates:	[●]
(ii) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/[*specify other*]]
(iii) Additional Business Centre(s):	[●]
(iv) Manner in which the Rate of Interest and Interest Amount are to be determined:	[Screen Rate Determination/ISDA Determination/*specify other*]
(v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):	[●]
(vi) Screen Rate Determination:	
—Reference Rate and Relevant Financial Centre:	Reference Rate: [●] month [LIBOR/EURIBOR/HIBOR/ specify other Reference Rate]. Relevant Financial Centre: [London/Brussels/Hong Kong/ specify other Relevant Financial Centre]
—Interest Determination Date(s):	[●] (*Second London business day prior to the start of* each Interest Period if LIBOR (other than Sterling, Hong Kong dollar or euro LIBOR), first day of each Interest Period if Sterling or Hong Kong dollar LIBOR or HIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)

	—Relevant Screen Page:	[●] (In *the case of EURIBOR, if not Reuters Page* EURIBOR 01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
	(vii) ISDA Determination:	
	—Floating Rate Option:	[●]
	—Designated Maturity:	[●]
	—Reset Date:	[●] (*In the case of a LIBOR, EURIBOR or HIBOR based option, the first day of the Interest Period*)
	(viii) Margin(s):	[+/-] [●]% per annum
	(ix) Minimum Rate of Interest:	[●]% per annum
	(x) Maximum Rate of Interest:	[●]% per annum
	(xi) Day Count Fraction:	[Actual/Actual (ISDA)][Actual/Actual] Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 [30/360][360/360][Bond Basis] [30E/360][Eurobond Basis] (*See Condition 5 for alternatives*)
	(xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
19.	Zero Coupon Note Provisions	[*Applicable/Not Applicable*] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Accrual Yield:	[●]% per annum
	(ii) Reference Price:	[●]
	(iii) Any other formula/basis of determining amount payable:	[●]
	(iv) Day Count Fraction in relation to Early Redemption Amounts and late payment:	[30/360] [Actual/360] [Actual/365]
20.	**Index Linked Note Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Index/Formula:	[*give or annex details*]
	(ii) Calculation Agent:	[●]

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

Provisions Relating to Redemption

22.	Issuer Call	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Optional Redemption Date(s):	[●]
(ii)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[●] per Calculation Amount/*specify other*/see Appendix]

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

General Provisions Applicable to the Notes

26.	Form of Notes:	[Bearer Notes: [Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]] [Temporary Bearer Global Note exchangeable for Definitive Notes on and after the Exchange Date] [Permanent Bearer Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]]

	(*Ensure that this is consistent with the wording in the "Form of the Notes" section in the Offering Circular and the Notes themselves. N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect*: "*US$200,000 and integral multiples of US$1,000 in excess thereof up to and including US$299,000.*" *Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.*) [Registered Notes: Regulation S Global Note (US$[●] nominal amount)/ Rule 144A Global Note (US$[●] nominal amount)/ Definitive IAI Registered Notes (specify nominal amounts)]
27. Additional Financial Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/give details] (*Note that this item relates to the place of payment and not Interest Period end dates to which items 17(iii) and 19(vii) relate*)
28. Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
29. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/give details. *N.B.*: *A new form of Global Note may be required for Partly Paid issues*]
30. Details relating to Instalment Notes:	
(i) Instalment Amount(s):	[Not Applicable/*give details*]
(ii) Instalment Date(s):	[Not Applicable/*give details*]
31. Redenomination applicable:	Redenomination [not] applicable [(*If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))] [(if Redenomination is applicable, specify the terms of the redenomination in an Annex to the Pricing Supplement*)]
32. Other terms or special conditions:	[Not Applicable/*give details*]
	Distribution
33. (i) If syndicated, names of Managers:	[Not Applicable/*give names*]

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

Operational Information

37.	Any clearing system(s) other than DTC, Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
38.	Delivery:	Delivery [against/free of] payment
39.	Additional Paying Agent(s) (if any):	[●]

ISIN: [●]

Common Code: [●]

CUSIP: [●]

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

Listing Application

This Pricing Supplement comprises the details required to list the issue of Notes described herein pursuant to the US$8,000,000,000 Global Medium Term Note Programme of Kookmin Bank.

Responsibility

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

Signed on behalf of the Issuer:

By:

Duly authorised

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

TERMS AND CONDITIONS OF THE NOTES

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

This Note is one of a Series (as defined below) of Notes issued by Kookmin Bank (the **Issuer**). The applicable Pricing Supplement (as defined below) will indicate whether the Issuer is acting through its principal office in Korea or any of its overseas branches pursuant to the Agency Agreement (as defined below).

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

(i) in relation to any Notes represented by a global Note (a **Global Note**), units of each Specified Denomination in the Specified Currency;

(ii) any definitive Notes in bearer form (**Bearer Notes**) issued in exchange for a Global Note in bearer form;

(iii) any Global Note; and

(iv) any definitive Notes in registered form (**Registered Notes**) (whether or not issued in exchange for a Global Note in registered form).

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Amended and Restated Agency Agreement dated May 14, 2009 (such Agreement as modified and/or supplemented and/or restated from time to time, the **Agency Agreement**) and made between, the Issuer, The Bank of New York Mellon, London Branch, as principal paying agent (the **Principal Paying Agent**, which expression shall include any successor principal paying agent, and, together with The Bank of New York Mellon SA/NV, Luxembourg Branch and any additional paying agents appointed in accordance with the Agency Agreement, the **Paying Agents**, which expression shall, unless the context otherwise requires, include any successor paying agents), as exchange agent (the **Exchange Agent**, which expression shall include any successor exchange agent) and as transfer agent (the **Transfer Agent** and, together with The Bank of New York Mellon SA/NV, Luxembourg Branch, the **Transfer Agents**, which expressions shall include any successor to any of The Bank of New York Mellon and The Bank of New York Mellon SA/NV, Luxembourg Branch in their capacities as such and any substitute or any additional transfer agents appointed in accordance with the Agency Agreement) and The Bank of New York Mellon as registrar (the **Registrar**, which expression shall include any successor registrar).

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

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

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

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

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Amended and Restated Deed of Covenant (such Deed of Covenant as modified and/or supplemented from time to time, the **Deed of Covenant**) dated May 14, 2009, and made by the Issuer. The original of the Deed of Covenant is held by the common depositary on behalf of Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement, a deed poll (such Deed Poll as modified and/or supplemented from time to time, the **Deed Poll**) dated May 14, 2009 and made by the Issuer, the applicable Pricing Supplement and the Deed of Covenant are available for inspection and collection, free of charge, during normal business hours at the specified office of each of the Paying Agents, the Registrar and the Transfer Agents (such Agents and the Registrar being together referred to as the **Agents**) save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be available for inspection by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the relevant Agent as to its holding of such Notes and as to identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed Poll, the Deed of Covenant and the applicable Pricing Supplement which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

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

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

1 Form, Denomination and Title

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

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

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

This Note may also be a Senior Note or a Subordinated Note, as indicated in the applicable Pricing Supplement.

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

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

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV (**Euroclear**) and/or Clearstream Banking S.A. (**Clearstream, Luxembourg**), each person (other than Euroclear, or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note (and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly). For so long as the Depository Trust Company (**DTC**) or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and the Notes except to the extent that in accordance with DTC's published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

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

2 Transfers of Registered Notes

(a) Transfers of interests in Registered Global Notes

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

(b) Transfers of Registered Notes in definitive form

Subject as provided in paragraphs (e), (f) and (g) below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Pricing Supplement). In order to effect any such transfer (i) the holder or holders must (A) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of the

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

(c) Registration of transfer upon partial redemption

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

(d) Costs of registration

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

(e) Transfers of interests in Regulation S Global Notes

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Note to a transferee in the United States or who is a U.S. person will only be made:

(i) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a **Transfer Certificate**), copies of which are available from the specified office of the Registrar or any Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made:

  (A) to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or

  (B) to a person who is an Institutional Accredited Investor, together with, in the case of (B), a duly executed investment letter from the relevant transferee substantially in the form set out in the Agency Agreement (an **IAI Investment Letter**); or

(ii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable federal securities laws of the United States or any applicable securities laws of any state of the United States, and, in each case, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

In the case of (A) above, such transferee may take delivery through a Legended Note in global or definitive form and, in the case of (B) above, such transferee may take delivery only through a Legended Note in definitive form. After expiry of the applicable Distribution Compliance Period (a) beneficial interests in Regulation S Global Notes registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC, or indirectly through a participant in DTC and (b) such certification requirements will no longer apply to such transfers.

(f) Transfers of interests in Legended Notes

Transfers of Legended Notes or beneficial interests therein may be made:

(i) to a transferee who takes delivery of such interest through a Regulation S Global Note, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that in the case of a Regulation S Global Note registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Notes being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or

(ii) to a transferee who takes delivery of such interest through a Legended Note:

(A) where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or

(B) where the transferee is an Institutional Accredited Investor, subject to delivery to the Registrar of a Transfer Certificate from the transferor to the effect that such transfer is being made to an Institutional Accredited Investor, together with a duly executed investment letter from the relevant transferee substantially in the form set out in the Agency Agreement (an **IAI Investment Letter**); or

(iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable federal securities laws of the United States or any applicable securities laws of any state of the United States;

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

Notes transferred by Institutional Accredited Investors to QIBs pursuant to Rule 144A or outside the United States pursuant to Regulation S will be eligible to be held by such QIBs or non-U.S. investors through DTC, Euroclear or Clearstream, Luxembourg, as appropriate, and the Registrar will arrange for any Notes which are the subject of such a transfer to be represented by the appropriate Registered Global Note, where applicable.

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

(g) Exchanges and transfers of Registered Notes generally

Holders of Registered Notes in definitive form, other than Institutional Accredited Investors, may exchange such Notes for interests in a Registered Global Note of the same type at any time.

(h) Closed Periods

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

(i) Costs of exchange or registration

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

(j) Definitions

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

Distribution Compliance Period means the period that ends 40 days after the completion of the distribution of each Tranche of Notes, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue);

Institutional Accredited Investor means "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act that are institutions;

Legended Note means Registered Notes in definitive form that are issued to Institutional Accredited Investors and Registered Notes (whether in definitive form or represented by a Registered Global Note) sold in private transactions to QIBs in accordance with the requirements of Rule 144A which bear a legend specifying certain restrictions on transfer (a **Legend**);

QIB means a "qualified institutional buyer" within the meaning of Rule 144A;

Regulation S means Regulation S under the Securities Act;

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

Rule 144A means Rule 144A under the Securities Act;

Rule 144A Global Note means a Registered Global Note representing Notes sold in the United States or to QIBs; and

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

3 Status of the Notes

(a) Status of the Senior Notes

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

(b) Status of the Subordinated Notes

This Condition 3(b) applies only to Notes specified in the applicable Pricing Supplement as Subordinated. Subordinated Notes whose status is specified in the applicable Pricing Supplement as Subordinated shall be either Upper Tier II Subordinated Notes (the Upper Tier II Subordinated Notes) or Lower Tier II Subordinated Notes (the Lower Tier II Subordinated Notes). Upper Tier II Subordinated Notes and Lower Tier II Subordinated Notes are together referred to in these Terms and Conditions as Subordinated Notes.

Subordinated Notes and any relative Receipts and Coupons constitute direct, general, subordinated and unsecured obligations of the Issuer which rank *pari passu* among themselves and in priority to claims of holders of all classes of equity (including holders of preference shares (if any)) of the Issuer.

(i) Provisions relating to Subordinated Notes generally

(1) If, on or prior to the Maturity Date or at any time while any amount is due and outstanding under any Subordinated Notes, a Bankruptcy Event (as defined below) occurs and so long as it continues, any amounts which become due then or thereafter under the Subordinated Notes (including overdue amounts) shall not be payable unless and until the total amount of any and all Senior Indebtedness of the Issuer which is listed on the distribution list (as amended, if such be the case) for final distribution submitted to the court in the bankruptcy proceedings is paid in full or provided to be paid in full in such bankruptcy proceedings.

(2) If, on or prior to the Maturity Date or at any time while any amount is due and outstanding under any Subordinated Notes, a Rehabilitation Event (as defined below) occurs and so long as it continues, any amounts which become due then or thereafter under the Subordinated Notes (including overdue amounts) shall not be payable unless and until the total amount of any and all Senior Indebtedness of the Issuer which is listed on the rehabilitation plan of the Issuer at the time when the court's approval of such plan becomes final and conclusive shall have been paid in full in the rehabilitation proceedings to the extent of the original amount thereof (without regard to any adjustment of such amount in the approved rehabilitation plan).

(3) If, on or prior to the Maturity Date or at any time while any amount is due and outstanding under any Subordinated Notes, a Foreign Event (as defined below) occurs and so long as it continues, any amounts which become due then or thereafter under the Subordinated Notes (including overdue amounts) shall only become payable upon conditions equivalent to those enumerated in the above two paragraphs having been fulfilled; provided that notwithstanding any provision herein to the contrary if the imposition of any such conditions is not allowed under such proceedings, any amounts which become due under the Subordinated Notes shall become payable in accordance with the terms herein provided and not subject to such conditions.

(4) A holder of a Subordinated Note by its acceptance thereof or its interest therein, shall thereby agree that (i) if any payment in respect of such Note is made to such holder after the occurrence of a Subordination Event and the amount of such payment shall exceed the amount, if any, that should have been paid to such holder upon the proper application of these subordination provisions, the payment of such excess amount shall be deemed null and void and such holder (without the Registrar or any Paying Agent having any obligation or liability with respect thereto, save to the extent that the Registrar or such Paying Agent shall return to the Issuer any such excess amount which remains held by it at the time of the notice next referred to) shall be obliged to return the amount of the excess payment within ten days of receiving notice from the Issuer of the excess payment and (ii) upon the occurrence of a Subordination Event and so long as such Subordination Event continues, such holder shall not exercise any right to set off any liabilities of the Issuer under such Note which become so payable on or after the date on which the Subordination Event occurs against any liabilities of such holder owed to the Issuer unless, until and only in such amount as the liabilities of the Issuer under such Note become payable pursuant to the proper application of these subordination provisions.

In these Conditions:

- **a Bankruptcy Event** shall mean a court of competent jurisdiction in Korea having adjudicated the Issuer to be bankrupt pursuant to the provisions of the Debtor Rehabilitation and Bankruptcy Law or any successor legislation thereto;
- **a Foreign Event** shall mean in any jurisdiction other than Korea, the Issuer having become subject to bankruptcy, corporate reorganisation or other equivalent proceedings pursuant to any applicable law of any jurisdiction other than Korea;
- **a Rehabilitation Event** shall mean a court of competent jurisdiction in Korea having adjudicated the Issuer to be subject to the rehabilitation proceedings pursuant to the provisions of the Debtor Rehabilitation and Bankruptcy Law or any successor legislation thereto;
- **Senior Indebtedness of the Issuer** shall mean all deposits and other liabilities of the Issuer (other than (i) those which are subject to provisions equivalent to the payment conditions in paragraph (1), (2), or (3) above and (ii) those which rank or are expressed to rank *pari passu* with or junior to the Subordinated Notes); and
- **a Subordination Event** shall mean any Bankruptcy Event, Rehabilitation Event or Foreign Event.

(ii) Special Provisions relating to Upper Tier II Subordinated Notes

(1) Interest Payment Deferrals

If the Issuer is not, or would be caused by any interest payment on any Subordinated Notes not to be, in compliance with the Capital Adequacy Ratio Requirement (as defined below) on any Interest Payment

Date, the Issuer may, at its option, defer (in whole but not in part) payment of interest on such Subordinated Notes until the date specified below and any such failure to pay will not constitute a default by the Issuer for any purpose; provided, however, that the Issuer shall not declare or pay any dividends on any capital stock of the Issuer or make any payments in respect of liabilities of the Issuer (other than liabilities under the Lower Tier II Subordinated Notes and any indebtedness classified as lower tier II subordinated indebtedness by the FSS) that rank equally with or junior to the Subordinated Notes unless and until any and all Interest in Arrears (as defined below) and other accrued interest on the Subordinated Notes, including Additional Interest (as defined below), have been paid in full.

Any interest in respect of Subordinated Notes not paid on an Interest Payment Date, together with any other interest in respect of the Subordinated Notes not paid on any other Interest Payment Date, will, so long as the same remains unpaid, constitute **Interest in Arrears**. Until paid (whether before or after the Maturity Date), Interest in Arrears will bear interest (**Additional Interest**) at a rate that is 1.0% per annum over the interest rate payable on the relevant Subordinated Note at that time. In addition, the principal of the relevant Subordinated Notes, if not paid on the Maturity Date, will also bear interest at a rate that is 1.0% per annum over the interest rate that otherwise would be payable on such Subordinated Notes at that time.

Interest in Arrears and accrued interest, including Additional Interest, thereon may, at the option of the Issuer, be paid in whole or in part at any time upon the expiration of not less than 14 days' notice to such effect given to the Principal Paying Agent and to the holders of the Notes.

Interest in Arrears and other accrued interest, including Additional Interest, in respect of Subordinated Notes will (subject to Conditions 3(b)(i) and 3(b)(ii)(2)) become due in full on whichever is the earliest of the next Compulsory Interest Payment Date (as defined below), (2) the Maturity Date or the date fixed for any redemption pursuant to the provisions of Condition 7 (Redemption and Purchase) or (3) the occurrence of a Subordination Event. If notice is given by the Issuer of its intention to pay the whole or any part of Interest in Arrears and other accrued interest, including Additional Interest, the Issuer shall be obligated (subject to the conditions set forth in Conditions 3(b)(i) and 3(b)(ii)(2)) to do so upon the expiration of such notice.

As used herein:

Compulsory Interest Payment Date means an Interest Payment Date for the relevant Subordinated Notes, as of which date the Issuer, based upon its best estimates, is in compliance with the Capital Adequacy Ratio Requirement, provided that any payment of interest on such Subordinated Notes will not cause the Issuer, based upon its best estimates, not to be in compliance with the Capital Adequacy Ratio Requirement; and

Capital Adequacy Ratio Requirement means the requirement for the minimum risk-weighted total capital ratio of the Issuer, determined in accordance with the guidelines of the FSS, which currently is 8.0%.

(2) Solvency Condition

Payments of principal of, and interest on, the Subordinated Notes are conditional upon the Issuer not being an Insolvent Financial Institution (as defined below) at the time of payment by the Issuer, and no principal or interest shall be payable in respect of the Subordinated Notes, except to the extent that the Issuer could make the necessary payment and still not become an Insolvent Financial Institution. For the purposes of this paragraph, an Insolvent Financial Institution means any of the following:

(i) a financial institution (a)(i) whose liabilities exceed its assets according to an actual investigation of conditions of its operations or (ii) which clearly has difficulty in operating its ordinary business as its liabilities exceed its assets due to the occurrence of any adverse financial incident or non-performing claims, in each case involving large amounts, and (b) which the Financial Services Commission of Korea (the FSC) or the Operating Committee of the Korea Deposit Insurance Corporation (the Operating Committee) determines to be an "Insolvent Financial Institution." In this case, the valuation and calculation of liabilities and assets shall be made according to the standards set in advance by the FSC;

(ii) a financial institution which is under suspension of (a) payment of claims such as deposits (including the principal, interest, profit, insurance proceeds, various payments and other agreed monetary claims) or (b) repayment of money borrowed from other financial institutions; or

(iii) a financial institution which is deemed by the FSC or the Operating Committee to be having difficulty in paying claims such as deposits (including the principal, interest, profit, insurance proceeds, various payments and other agreed monetary claims) or repaying borrowed money without fund support from outside or separate borrowings (excluding borrowing in ordinary financial transactions).

Failure by the Issuer to make payments of principal of, and interest on, the Subordinated Notes while the Issuer remains an Insolvent Financial Institution (an Insolvency Period) shall not constitute a default by the Issuer for any purpose;

provided, however, that, while Subordinated Notes are outstanding, the Issuer shall not declare or pay any dividends on any capital stock of the Issuer or make any payments in respect of liabilities of the Issuer (other than liabilities under the Lower Tier II Subordinated Notes and any other indebtedness classified as Lower Tier II Subordinated indebtedness by the FSS) that rank equally with or junior to the Subordinated Notes.

Payments of principal of, and interest on, the Subordinated Notes not made during an Insolvency Period will (subject to Condition 3(b)(i)) become payable on whichever is the earlier of (1) the Issuer ceasing to be an Insolvent Financial Institution and (2) the occurrence of a Subordination Event. Until paid (whether before or after the Maturity Date), payments of interest on Subordinated Notes not made during an Insolvency Period will bear additional interest at a rate that is 1.0% per annum over the interest rate payable on such Subordinated Notes at that time. In addition, if the Insolvency Period is continuing on and after the Maturity Date, the principal on the Subordinated Notes will also bear interest at a rate that is 1.0% per annum over the interest rate that otherwise would be payable on the Subordinated Notes at that time.

4 Negative Pledge

(a) Negative Pledge

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

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

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

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

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

(b) Interpretation

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

(i) by their terms either are payable, or confer a right to receive payment, in any currency other than Won or are denominated in Won and more than one-half of the aggregate principal amount of which is initially distributed outside Korea by or with the authorisation of the Issuer; and

(ii) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market outside Korea;

provided that Covered Bonds (as defined below) in the aggregate outstanding principal amount not exceeding an amount equal to 10% of the total consolidated assets as shown on the most recent consolidated accounts of the Issuer shall not constitute International Investment Securities.

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

5 Interest

(a) Interest on Fixed Rate Notes

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

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

In these Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date. Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

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

(B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

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

In these Terms and Conditions:

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

(i) if **Actual/Actual** (**ICMA**) is specified in the applicable Pricing Supplement;

(a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or

(b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of;

(1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(ii) if **30/360** is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360;

In these Terms and Conditions:

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

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

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

(i) Interest Payment Dates

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

(A) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or

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

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

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

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

(2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

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

(A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre specified in the applicable Pricing Supplement; and

(B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated RealTime Gross Settlement Express Transfer (**TARGET 2**) System (the **TARGET 2 System**) is open.

(ii) Rate of Interest

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

(A) ISDA Determination for Floating Rate Notes

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

(1) the Floating Rate Option is as specified in the applicable Pricing Supplement;

(2) the Designated Maturity is a period specified in the applicable Pricing Supplement; and

(3) the relevant Reset Date is specified in the applicable Pricing Supplement.

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

(B) Screen Rate Determination for Floating Rate Notes

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

(A) the offered quotation; or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations, (expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11:00 a.m. (in the Relevant Financial Centre time) (the Specified Time) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Principal Paying Agent.

If five or more offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one highest quotation, one only of those quotations) and the lowest (or, if there is more than one lowest quotation, one only of those quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

(2) If the Relevant Screen Page is not available or, if in the case of Condition 5(b)(ii)(B)(1)(A) above, no such offered quotation appears or, in the case of Condition 5(b)(ii)(B)(1)(B) above, fewer than three such offered quotations appear, in each case as at the Specified Time, the Principal Paying Agent shall request each of the Reference Banks (as defined below) to provide the Principal Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Principal Paying Agent with such offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent.

(3) If on any Interest Determination Date one only or none of the Reference Banks provides the Principal Paying Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Principal Paying Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Principal Paying Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London interbank market (if the Reference Rate is LIBOR) or the Euro-zone interbank market (if the Reference Rate is EURIBOR) or the Hong Kong interbank market (if the Reference Rate is HIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Principal Paying Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Principal Paying Agent it is quoting to leading banks in the London interbank market (if the Reference Rate is LIBOR) or the Euro-zone interbank market (if the Reference Rate is EURIBOR) or the Hong Kong interbank market (if the Reference Rate is HIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

(4) Reference Banks means, in the case of a determination of LIBOR, the principal London office of four major banks in the London interbank market, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone interbank market, and, in the case of a determination of HIBOR, the principal Hong Kong office of four major banks in the Hong Kong interbank market, in each case selected by the Principal Paying Agent or as specified in the applicable Pricing Supplement.

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

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

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

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

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

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

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

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

In these Terms and Conditions,

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

(1) if **Actual/Actual** (**ISDA**) or **Actual/Actual** is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(2) if **Actual/365** (**Fixed**) is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;

(3) if **Actual/365** (**Sterling**) is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(4) if Actual/360 is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;

(5) if 30/360, 360/360 or Bond Basis is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\textbf{Day Count Fraction} = \frac{[360 \times (Y2 - Y1) + (M2 - M1)] + (D2 - D1)}{360}$$

where:

Y1 is the year, expressed as a number, in which the first day of the Interest Period falls;

Y2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M1 is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D1 is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

D2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

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

$$\textbf{Day Count Fraction} = \frac{[360 \times (Y2 - Y1) + (M2 - M1)] + (D2 - D1)}{360}$$

where:

Y1 is the year, expressed as a number, in which the first day of the Interest Period falls;

Y2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M1 is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D1 is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

D2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30;

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

$$\textbf{Day Count Fraction} = \frac{[360 \times (Y2 - Y1) + (M2 - M1)] + (D2 - D1)}{360}$$

where:

Y1 is the year, expressed as a number, in which the first day of the Interest Period falls;

Y2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M1 is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

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

D2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and D2 will be 30.

(v) Notification of Rate of Interest and Interest Amounts

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

(vi) Certificates to be Final

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

(c) Interest on Dual Currency Notes

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

(d) Interest on Partly Paid Notes

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

(e) Accrual of Interest

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

(1) the date on which all amounts due in respect of such Note have been paid; and

(2) the date on which the full amount of the moneys payable has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given in accordance with Condition 14.

6 Payments

(a) Method of Payment

Subject as provided below:

(i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively); and

(ii) payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

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

(b) Payments subject to fiscal and other laws

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

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

Payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

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

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

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

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

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

(d) Payments in respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of Bearer Notes represented by any Global Note in bearer form will (subject as provided below) be made in the manner provided in paragraph (a) above and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Note in bearer form, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it was presented and such record shall be prima facie evidence that the payment in question has been made.

(e) Payments in respect of Registered Notes

Payments of principal (other than instalments of principal (if any) prior to the final instalment) in respect of each Registered Note (whether in definitive or global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the **Register**) (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) immediately prior to the relevant payment date. Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Notes held by a holder is less than US$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, **Designated Account** means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated

Bank and identified as such in the Register and **Designated Bank** means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

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

Holders of Registered Notes will not be entitled to any interest of other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Note in respect of Notes denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for payment in such Specified Currency or conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement.

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

(f) General provisions applicable to payments

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

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

(i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;

(ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

(iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(g) Payment Day

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

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

  (A) in the case of Notes in definitive form only, the relevant place of presentation;

  (B) each Additional Financial Centre specified in the applicable Pricing Supplement;

(ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET 2 System is open; and

(iii) in the case of any payment in respect of a Registered Global Note denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Note) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

(h) Interpretation of Principal and Interest

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

(i) any additional amounts which may be payable with respect to principal under Condition 8;

(ii) the Final Redemption Amount of the Notes;

(iii) the Early Redemption Amount of the Notes;

(iv) the Optional Redemption Amount(s) (if any) of the Notes;

(v) in relation to Notes redeemable in instalments, the Instalment Amounts;

(vi) in relation to Zero Coupon Notes, the Amortised Face Amount as defined in Condition 7(e); and

(vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

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

7 Redemption and Purchase

(a) Redemption at Maturity

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

(b) Redemption for Tax Reasons

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

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

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

provided that (1) in the case of Subordinated Notes, the prior approval of the FSS or such other relevant regulatory authorities in Korea or elsewhere shall have been obtained, if necessary, and (2) no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Principal Paying Agent a certificate signed by two duly authorised officers of the Issuer stating that the

Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

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

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

If Issuer Call is specified as being applicable in the applicable Pricing Supplement, the Issuer shall, having (1) in the case of Subordinated Notes, obtained the prior approval of the FSS or such other relevant regulatory authorities in Korea or elsewhere, if necessary, and (2) given:

(i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14; and

(ii) not less than 15 days before the giving of the notice referred to in (i) above, notice to the Principal Paying Agent and, in the case of a redemption of Registered Notes, the Registrar;

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

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

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

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

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

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

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

(e) Early Redemption Amounts

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

(i) in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(ii) in the case of Notes (other than Zero Coupon Notes but including Instalment Notes and Partly Paid Notes) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the Pricing Supplement, at their nominal amount; or

(iii) in the case of Zero Coupon Notes, at an amount (the Amortised Face Amount) calculated in accordance with the following formula:

Early Redemption Amount = RP x (1 + AY)y

where:

RP means the Reference Price; and

AY means the Accrual Yield expressed as a decimal; and

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

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

(f) Instalments

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

(g) Partly Paid Notes

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

(h) Purchases

The Issuer may at any time purchase Senior Notes and, subject to obtaining the prior approval of the FSS or such other relevant regulatory authorities in Korea, if necessary, Subordinated Notes at any price (provided that, in the case of Bearer Notes in definitive form, these are purchased together with all unmatured Receipts, Coupons and Talons appertaining thereto) in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent and/ or the Registrar for cancellation.

(i) Cancellation

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

(j) Late payment on Zero Coupon Notes

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

(i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(ii) the date on which the full amount of the moneys payable has been received by the Principal Paying Agent or, as the case may be, the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 14.

(k) Obligation to redeem

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

8 Taxation

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

(i) presented for payment by or on behalf of a Noteholder, Receiptholder or Couponholder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or

(ii) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such 30th day; or

(iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income (as amended from time to time) or any law implementing or complying with, or introduced in order to conform to, such Directive;

(iv) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or

(v) where such withholding or deduction is imposed pursuant to Sections 1471 through 1474 of the Code, U.S. Treasury regulations or administrative guidance promulgated thereunder or any law implementing an intergovernmental approach thereto.

As used herein:

(A) **Tax Jurisdiction** means (i) Korea or any political subdivision or any authority thereof or therein having power to tax and (ii) if the Issuer is acting through an overseas branch (as specified in the applicable Pricing Supplement) the jurisdiction relating to such overseas branch or any political subdivision or any authority thereof or therein having power to tax; and

(B) the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or, as the case may be, the Registrar on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

9 Prescription

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

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

10 Events of Default

(a) Applicable to Senior Notes only

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

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

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

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

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

(v) *Cessation of Business*: the Issuer ceases or threatens to cease to carry on the whole or a substantial part of its business save for the purposes of, or pursuant to and followed by, a consolidation, amalgamation, merger or reorganisation the terms of which shall have previously been approved by an Extraordinary Resolution of the Noteholders;

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

(vii) *Insolvency, etc.*: (1) the Issuer becomes insolvent or is unable to pay its debts generally as they fall due; (2) an administrator or liquidator of the Issuer or the whole or any part of the undertaking, assets and revenues of the Issuer is appointed (or application for any such appointment is made and is not withdrawn within 60 days thereafter), (3) the Issuer takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Surety given by it, (4) the Issuer ceases or threatens to cease to be a foreign exchange bank with a general banking licence in Korea; or

(viii) *Winding up*: an order is made or an effective resolution is passed for the winding up of the Issuer; or

(ix) *Analogous event*: any event occurs which under the laws of Korea has an analogous effect to any of the events referred to in sub-paragraphs (iv) to (viii) above,

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

(b) Applicable to Subordinated Notes only

(i) If any Subordination Event shall occur and be continuing then, in any such event, the holder of any Subordinated Note may by written notice to the Issuer declare such Note to be forthwith due and payable upon receipt of such notice by the Issuer whereupon such Note shall become due and repayable at its principal amount plus accrued interest (if any).

(ii) Except as expressly provided in this Condition 10(b), no holder of any Subordinated Note shall have any right to accelerate any payment of principal or interest in respect of the Subordinated Notes.

(iii) The only action the holder of a Subordinated Note may take in Korea against the Issuer on acceleration of the Subordinated Notes is to petition for the liquidation of, or for the commencement of reorganisation proceedings in relation to, the Issuer in Korea (subject to the satisfaction of the relevant requirements of applicable law) or to prove in the liquidation or other applicable proceedings in respect of the Issuer in Korea.

(c) Interpretation

In these Conditions:

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

(ii) **Person** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state, agency of a state or other entity, whether or not having a separate legal personality; and

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

(iv) **Subsidiary** means, in relation to the Issuer, any company (i) in which the Issuer holds a majority of the voting rights or (ii) of which the Issuer is a member and has the right to appoint or remove a majority of the board of directors or (iii) of which the Issuer is a member and controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of the Issuer.

11 Replacement of Notes, Receipts, Coupons and Talons

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

12 Principal Paying Agent, Registrar, Exchange Agent, Paying and Transfer Agents

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

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

(i) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent (in the case of Bearer Notes), and a Registrar and Transfer Agent (in the case of Registered Notes) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority);

(ii) there will at all times be a Paying Agent and a Transfer Agent with a specified office in a city in continental Europe;

(iii) there will at all times be a Registrar and a Transfer Agent each having a specified office in New York City;

(iv) so long as any of the Registered Global Notes payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York City;

(v) there will at all times be a Principal Paying Agent;

(vi) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC (as amended from time to time) or any law implementing or complying with, or introduced in order to conform to, such Directive; and

(vii) so long as the Notes are listed on the Singapore Exchange Securities Trading Limited (the **Singapore Stock Exchange**) and the rules of the Singapore Stock Exchange so require, if the Notes are issued in definitive form, there will at all times be a Paying Agent in Singapore unless the Issuer obtains an exemption from the Singapore Stock Exchange.

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

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

13 Exchange of Talons

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

14 Notices

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

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

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

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

15 Meetings of Noteholders, Modification and Waiver

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Noteholders holding not less than 5.0% in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50.0% in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, Receipts or Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereof, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, Receipts or Coupons), the quorum shall be one or more persons holding or representing not less than 75.0% in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing a clear majority, in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

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

(i) any modification (except as mentioned above) of any of the provisions of the Notes, the Receipts, the Coupons, the Conditions or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or

(ii) any modification of the Notes, the Receipts, the Coupons, the Conditions, the Deed of Covenant or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

16 Further Issues

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

17 Provision of Information

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

18 Contracts (Rights of Third Parties) Act 1999

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

19 Governing Law and Submission to Jurisdiction

(a) The Agency Agreement, the Deed Poll, the Deed of Covenant, the Notes, the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with the Agency

Agreement, the Deed Poll, the Deed of Covenant, the Notes, the Receipts and the Coupons, are and shall be governed by, and construed in accordance with, English law except that in the case of Subordinated Notes, Condition 3(b) is governed by, and shall be construed in accordance with, Korean law.

(b) The Issuer agrees, for the exclusive benefit of the Noteholders, the Receiptholders and the Couponholders that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Agency Agreement, the Notes, the Receipts and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection therewith) and that accordingly any suit, action or proceedings (together referred to as Proceedings) arising out of or in connection with the Agency Agreement, the Notes, the Receipts and the Coupons (including any Proceeding relating to any non-contractual obligations arising out of or in connection therewith) may be brought in such courts. The Issuer hereby irrevocably waives any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agrees that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction. Nothing contained in this Condition shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not. The Issuer appoints Kookmin Bank Int'l Ltd. (London) at its registered office for the time being, currently at 6/F, Princes Court, 7 Princes Street, London EC2R 8AQ, England as its agent for service of process, and undertakes that, in the event of it ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve Proceedings in any other manner permitted by law. The Issuer hereby irrevocably and unconditionally waives with respect to the Agency Agreement, the Notes, the Receipts and/or the Coupons any right to claim immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes.

RISK FACTORS

Prospective purchasers of Notes should carefully review the information contained elsewhere in this Offering Circular, including the following matters.

Risks Relating to the Issuer's Retail Credit Portfolio

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

In recent years, consumer debt has increased significantly in Korea. The Issuer's portfolio of retail loans on a separate basis, including mortgage and home equity loans, increased from ₩112,080 billion as of December 31, 2014 to ₩115,811 billion as of December 31, 2015 and ₩123,687 billion as of December 31, 2016. As of December 31, 2016, on a separate basis, the Issuer's retail loans represented 52.2% of the Issuer's total lending. On a separate basis, within the Issuer's retail loan portfolio, the outstanding balance of other consumer loans, which unlike mortgage or home equity loans are often unsecured and therefore tend to carry a higher credit risk, increased from ₩25,124 billion as of December 31, 2014 to ₩30,692 billion as of December 31, 2016; as a percentage of total outstanding retail loans on a separate basis, such balance increased from 22.4% as of December 31, 2014 to 24.8% as of December 31, 2016. The growth of the Issuer's retail lending business, which generally offers higher margins than other lending activities, has contributed significantly to its interest income and profitability in recent years.

The growth of the Issuer's retail loan portfolio, together with adverse economic conditions in Korea and globally in recent years, may lead to increases in delinquency levels and a deterioration in asset quality. On a separate basis, the amount of the Issuer's non-performing retail loans (defined as those loans that are past due by 90 days or more) decreased from ₩302 billion as of December 31, 2014 to ₩249 billion as of December 31, 2015 and ₩192 billion as of December 31, 2016. However, higher delinquencies in the Issuer's retail loan portfolio in the future will require the Issuer to increase its loan loss provisions and charge-offs, which in turn will adversely affect its financial condition and results of operations.

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

In addition, the Issuer is exposed to changes in regulations and policies on retail lending by the government of the Republic of Korea (the **Government**), which may adopt measures to restrict retail lending or encourage financial institutions to provide financial support to certain types of retail borrowers. In 2014 and 2015, the Government implemented several measures to encourage consumer spending and revive the housing market in Korea, including loosening regulations on mortgage lending, which contributed to an increase in the Issuer's portfolio of retail loans. However, the Government introduced measures in the second half of 2016 to tighten regulations on mortgage lending and housing subscription in response to the rapid growth in consumer debt and concerns over speculative investments in real estate in certain regions of Korea. Signs of decreases in housing prices following the implementation of such measures, together with the high level of consumer debt, could result in further declines in consumer spending and reduced economic growth, which may lead to increases in delinquency levels of the Issuer's retail loan portfolio.

In light of adverse conditions in the Korean economy affecting consumers, in March 2009, the Financial Services Commission (the **FSC**) requested Korean banks, including the Issuer, to establish a "pre-workout programme," including a credit counselling and recovery service, for retail borrowers with outstanding short-term debt defaults. Under the pre-workout programme, which has been in operation since April 2009, maturity extensions and/or interest reductions are provided for retail borrowers with total loans of ₩1.5 billion or less (consisting of no more than ₩500 million of unsecured loans and ₩1 billion of secured loans) who are in arrears on their payments for more than 30 days but less than 90 days or for retail borrowers with an annual income of ₩40 million or less who have been in arrears on their payments for 30 days or more on an aggregate basis for the 12 months prior to their application. In addition, in March 2015, in response to increasing levels of consumer debt and amid concerns over the debt-servicing capacity of retail borrowers if interest rates were to rise, the Government launched, and requested Korean banks to participate in, a mortgage loan refinancing programme aimed at reducing the payment burden on and improving the asset quality of outstanding mortgage loans. Under such refinancing programme, over 340,000 qualified retail borrowers converted their outstanding non-amortising floating-rate mortgage loans from Korean commercial banks (including the Issuer) into amortising fixed-rate mortgage loans with lower interest rates, amounting to an aggregate principal amount of ₩34 trillion for all commercial banks in 2015. The Issuer's participation in such refinancing programme may lead to a decrease in its interest income on its outstanding mortgage loans, as well as in its overall net interest margin. Moreover, the Issuer's participation in such initiatives led by the Government to provide financial support to retail borrowers may lead the Issuer to offer credit terms for such borrowers that it would not generally offer, which may have an adverse effect on the Issuer's results of operations and financial condition.

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

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

One of the Issuer's core businesses is lending to SMEs. The Issuer's loans to SMEs increased from ₩70,516 billion as of December 31, 2014 to ₩82,216 billion as of December 31, 2016. During that period, non-performing loans (defined as those loans that are past due by 90 days or more) to SMEs decreased from ₩293 billion to ₩207 billion, and the non-performing loan ratio for such loans decreased from 0.4% to 0.3%. However, the Issuer's non-performing loans and non-performing loan ratio may increase in the future. According to data compiled by the Financial Supervisory Service (the **FSS**), the delinquency ratio for Won currency loans by Korean commercial banks to SMEs was 0.6% as of December 31, 2016. The delinquency ratio for Won currency loans to SMEs is calculated as the ratio of (1) the outstanding balance of such loans in respect of which either principal or interest payments are overdue by one month or more to (2) the aggregate outstanding balance of such loans. The Issuer's delinquency ratio for such loans decreased from 0.6% as of December 31, 2014 to 0.4% as of December 31, 2016. However, the Issuer's delinquency ratio for such Won currency loans may increase in the future. In recent years, the Issuer has taken measures which sought to stem rising delinquencies in its loans to SMEs, including through strengthening the review of loan applications and closer monitoring of the post-loan performance of SME borrowers in industry sectors that are relatively more sensitive to downturns in the economy and have shown higher delinquency ratios, such as shipping, construction, lodging, retail and wholesale, restaurants and real estate. Despite such efforts, however, there is no assurance that delinquency levels for the Issuer's loans to SMEs will not rise in the future. In particular, financial difficulties experienced by SMEs as a result of, among other things, adverse economic conditions in Korea and globally in recent years may lead to a deterioration in the asset quality of the Issuer's loans to this segment. Any such deterioration would result in increased charge-offs and higher provisioning and reduced interest and fee income from this segment, which could have a material adverse impact on the Issuer's financial condition and results of operations.

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

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

In light of the deteriorating financial condition and liquidity position of SMEs in Korea since the global financial crisis commencing in the second half of 2008, the Government introduced policies and initiatives intended to encourage Korean banks to provide financial support to SMEs. For example, in October 2008, the FSS requested Korean banks, including the Issuer, to establish a "fast track" programme to provide liquidity assistance to SMEs on an expedited basis. Under the fast track programme established by the Issuer, which has been extended until December 31, 2021, the Issuer provides liquidity assistance to qualified SME borrowers applying for such assistance, in the form of new loans or maturity extensions or interest rate adjustments with respect to existing loans, after expedited credit review and approval by the Issuer. The overall prospects for the Korean economy in 2017 and beyond remain uncertain, and the Government may extend or renew existing or past policies and initiatives or introduce new policies or initiatives to encourage Korean banks to provide financial support to SMEs. The Issuer's participation in such Government-led initiatives may lead the Issuer to extend credit to SME borrowers that the Issuer would not otherwise extend, or offer terms for such credit that the Issuer would not otherwise offer, in the absence of such initiatives. Furthermore, there is no guarantee that the financial condition and liquidity position of the Issuer's SME borrowers benefiting from such initiatives will improve sufficiently for them to service their debt on a timely basis, or at all. Accordingly, increases in the Issuer's exposure to SME borrowers resulting from such Government-led initiatives may have a material adverse effect on the Issuer's financial condition and results of operations.

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

As of December 31, 2016, on a separate basis, the Issuer had loans outstanding to construction, shipbuilding and shipping companies (many of which are SMEs) in the amount of ₩2,881 billion, ₩699 billion and ₩456 billion, or 1.2%, 0.3% and 0.2% of its total loans, respectively. The Issuer also has other exposures to Korean construction, shipbuilding and shipping companies, including in the form of guarantees extended on behalf of such companies (which included, on a separate basis, confirmed guarantees of ₩509 billion of for construction companies, ₩1,436 billion for shipbuilding companies and ₩63 billion for shipping companies as of December 31, 2016) and debt and equity securities of such companies held by the Issuer. In the case of construction companies, such exposures include guarantees provided to the Issuer by general contractors with respect to financing extended by the Issuer for residential and commercial real estate development projects. In the case of shipbuilding companies, such exposures include refund guarantees extended by the Issuer on behalf of shipbuilding companies to cover their obligation to return a portion of the ship order contract amount to customers in the event of performance delays or defaults under shipbuilding contracts.

Although the construction industry in Korea has shown signs of recovery since 2015, excessive investment in residential property development projects, the recent strengthening of mortgage lending regulations by the Government, stagnation of real property prices and reduced demand for residential property, especially in areas outside of Seoul, are expected to continue to negatively impact the construction industry. The shipbuilding industry in Korea has experienced a severe downturn in recent years reflecting a significant decrease in ship orders, primarily due to adverse conditions in the global economy and the resulting slowdown in global trade. In the case of shipping companies in Korea, reduced shipping rates and high chartering costs, together with the slowdown in global trade, have contributed to the deterioration of their financial condition, requiring some of them to file for bankruptcy or pursue voluntary restructuring of their debt.

In response to the deteriorating financial condition and liquidity position of borrowers in the construction, shipbuilding and shipping industries, which were disproportionately impacted by adverse economic developments in Korea and globally, the Government implemented a programme in 2009 to promote expedited restructuring of such borrowers by their Korean creditor financial institutions, under the supervision of major commercial banks. In accordance with such programme, 24 construction companies and five shipbuilding companies became subject to workout in 2009, following review by their creditor financial institutions (including the Issuer) and the Government. Each year since 2009, the FSC and the FSS have announced the results of subsequent credit risk evaluations conducted by creditor financial institutions (including the Issuer) of companies in Korea with outstanding credit exposures of ₩50 billion or more, pursuant to which a number of companies were selected by such financial institutions for restructuring in the form of workout, liquidation or court receivership. Most recently, in 2016, 32 companies with outstanding credit exposures of ₩50 billion or more (6 of which were construction companies and 9 of which were shipbuilding and shipping companies) were selected by such financial institutions for restructuring. However, there is no assurance that these measures will be successful in stabilising the Korean construction, shipbuilding and shipping industries.

The allowances that the Issuer has established against its credit exposures to Korean construction, shipbuilding and shipping companies may not be sufficient to cover all future losses arising from these and other exposures. If the credit quality of the Issuer's exposures to such companies declines further, the Issuer may be required to take substantial additional provisions (including in connection with restructurings of such companies), which could adversely impact its results of operations and financial condition. See "—Risks Relating to the Issuer's Large Corporate Loan Portfolio—The Issuer has exposure to companies that are currently or may in the future be put in restructuring, and the Issuer may suffer losses as a result of additional loan loss provisions required and/or the adoption of restructuring plans with which it does not agree." Furthermore, although a portion of the Issuer's credit exposures to construction, shipbuilding and shipping companies are secured by collateral, such collateral may not be sufficient to cover uncollectible amounts in respect of such credit exposures. See "*—Other Risks Relating to the Issuer's Business—A decline in the value of the collateral securing the Issuer's loans and the Issuer's inability to realise full collateral value may adversely affect its credit portfolio*."

Risks Relating to the Issuer's Strategy

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

The Issuer has historically relied on interest income as its primary revenue source. While the Issuer has developed new sources of fee income as part of its business strategy, the Issuer's ability to increase its fee income and thereby reduce its dependence on interest income will be affected by the extent to which the Issuer's customers generally accept the concept of fee-based services. Historically, customers in Korea have generally been reluctant to pay fees in return for value-added financial services, and their continued reluctance to do so will adversely affect the implementation of the Issuer's strategy to increase its fee income. Furthermore, the fees that the Issuer charges to customers are subject to regulation by Korean financial regulatory authorities, which may seek to implement regulations or measures that may also have an adverse impact on the Issuer's ability to achieve this aspect of the Issuer's strategy.

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

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

Risks Relating to Competition

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

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

In addition, the Issuer believes that regulatory reforms and the general modernisation of business practices in Korea will lead to increased competition among financial institutions in Korea. In the second half of 2015, the Government implemented measures to facilitate bank account portability of retail customers by requiring commercial banks to establish systems that allow retail customers to easily switch their bank accounts at one commercial bank to another and automatically transfer the automatic payment settings of their former accounts to the new ones. Such measures are expected to further intensify competition among financial institutions in Korea. Moreover, in March 2016, the FSC introduced an individual savings account (ISA) scheme in Korea, which enables individuals to efficiently manage a wide range of retail investment vehicles, including cash deposits, funds and securities investment products, from a single integrated account with one financial institution and offers tax benefits on investment returns. Since the Government-backed scheme allows only one ISA per person, financial institutions have been competing to retain existing customers and attract new customers since the launch of the ISA scheme. Over 30 financial institutions, including banks, securities companies and insurance companies, have registered with the FSC to sell their ISA products and competition among these financial institutions is expected to remain intense.

Furthermore, the introduction of Internet primary banks in Korea is expected to increase competition in the Korean banking industry. Internet primary banks operate with only a small number of or without branches and conduct most of their operations through electronic means, which enable them to minimise costs and offer customers higher interest rates on deposits or lower lending rates. In April 2017, KBank, the first Internet primary bank in Korea, commenced operations. Kakao Bank, another Internet primary bank, in which the Issuer holds a 10% equity interest, is expected to commence operations in the first half of 2017.

Moreover, a number of significant mergers and acquisitions in the industry have taken place in Korea in recent years, including Hana Financial Group's acquisition of a controlling interest in Korea Exchange Bank in February 2012 and the subsequent merger of Hana Bank into Korea Exchange Bank in September 2015. In addition, as part of the Government's plans to privatise Woori Finance Holdings Co., Ltd. (the former financial holding company of Woori Bank), certain subsidiaries of Woori Finance Holdings were sold to other financial institutions and Woori Finance Holdings itself was merged into Woori Bank in 2014.

The Issuer expects that consolidation in the Korean financial industry will continue. The financial institutions resulting from such consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for the Issuer. The Issuer also believes that foreign financial institutions, many of which have greater experience and resources than the Issuer, may seek to compete with the Issuer in providing financial products and services either by themselves or in partnership with existing Korean financial institutions. Increased competition and continuing consolidation may lead to decreased margins, resulting in a material adverse impact on the Issuer's future profitability. Accordingly, the Issuer's results of operations and financial condition may suffer as a result of increasing competition in the Korean financial industry.

Risks Relating to the Issuer's Large Corporate Loan Portfolio

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

Of the Issuer's 20 largest corporate exposures (including loans, debt and equity securities and guarantees and acceptances) as of December 31, 2016 on a separate basis, 17 were to companies that were members of the 39 largest *chaebols* in Korea designated as such by the FSS based on their outstanding exposures. As of that date, on a separate basis, the total amount of the Issuer's exposures to such 39 *chaebols* was ₩18,487 billion, or 6.5% of the Issuer's total exposures. If the credit quality of the Issuer's exposures to *chaebols* declines as a result of financial difficulties they experience or for other reasons, the Issuer could require substantial additional loan loss provisions, which would hurt its results of operations and financial condition. See "*Assets and Liabilities—Loan Portfolio—Exposure to Chaebols.*"

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

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

As of December 31, 2016, on a separate basis, the Issuer's loans and guarantees to companies that were in workout, restructuring or rehabilitation amounted to ₩499 billion or 0.2% of the Issuer's total loans and guarantees, most of which were classified as impaired. As of the same date, on a separate basis, the Issuer's allowances for credit losses on these loans and guarantees amounted to ₩280 billion, or 56.1% of these loans and guarantees. These allowances may not be sufficient to cover all future losses arising from the Issuer's exposure to these companies. Furthermore, the Issuer has other exposure to such companies, in the form of debt and equity securities of such companies held by the Issuer (including equity securities the Issuer acquired as a result of debt-to-equity conversions). In addition, in the case of borrowers that are or become subject to workout or restructuring, the Issuer may be forced to restructure its credits pursuant to restructuring plans approved by other creditor financial institutions of the borrower, or to dispose of the Issuer's credits to other creditors on unfavourable terms.

In particular, as of December 31, 2016, on a separate basis, the Issuer had ₩123 billion of outstanding loans and ₩524 billion of outstanding guarantees (mainly in the form of refund guarantees relating to shipbuilding contracts) to Daewoo Shipbuilding & Marine Engineering Co., Ltd. (**DSME**), which is pursuing a voluntary restructuring programme. In March 2017, the FSC announced a proposed plan to provide additional financial support to DSME in connection with its voluntary restructuring programme, under which The Korea Development Bank and The Export-Import Bank of Korea would provide ₩2.9 trillion of new loans to DSME, on the condition that DSME's other creditors and bondholders agree to a ₩2.9 trillion debt-to-equity swap and a ₩900 billion debt rescheduling. Creditors' meetings are scheduled to take place in April 2017 to review the FSC's proposed financial support plan, which, if approved, would require the Korean commercial bank creditors of DSME (including the Issuer) to swap 80% of their outstanding unsecured loans into equity of DSME and extend the maturity of the remaining loans for a period of five years. The financial support plan may also require DSME's creditors (including the Issuer) to provide additional refund guarantees in connection with future shipbuilding contracts of DSME. The implementation of the FSC's proposed financial support plan or an alternative debt restructuring plan for DSME may require the Issuer to increase its loan loss provisions and recognise write-offs and impairment losses with respect to its exposures to DSME and may therefore have a material adverse impact on the Issuer's results of operations and financial condition. Furthermore, there is no guarantee that any such plan will be successful in ensuring the financial viability of DSME.

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

As of December 31, 2016, the Issuer's loans and guarantees to its 20 largest borrowers totalled ₩8,888 billion and accounted for 3.8% of the Issuer's total loans and guarantees. As of that date, the Issuer's single largest corporate credit exposure was to KEB Hana Bank, to which the Issuer had outstanding loans and guarantees (the majority of which was in the form of loans) of ₩1,069 billion, representing 0.5% of the Issuer's total loans and guarantees, as well as additional credit exposure of ₩452 billion in the form of debt securities. Any deterioration in the financial condition of KEB Hana Bank or the Issuer's other large corporate borrowers may require the Issuer to record substantial additional provisions and charge-offs and may have a material adverse impact on its results of operations and financial condition.

Other Risks Relating to the Issuer's Business

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

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

- the financial difficulties affecting many governments worldwide, in particular in Europe and Latin America;
- the slowdown of economic growth in China and other major emerging market economies;
- interest rate fluctuations as well as the possibility of further increases in policy rates by the U.S. Federal Reserve and other central banks; and
- political and social instability in various countries in the Middle East, including Iraq, Syria and Yemen, as well as the recent referendum in the United Kingdom in June 2016, in which a majority of voters voted in favour of an exit from the European Union (**Brexit**).

In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets, and in turn on the Issuer's business, financial condition and results of operations.

The Issuer is also exposed to adverse changes and volatility in global and Korean financial markets as a result of the Issuer's liabilities and assets denominated in foreign currencies and the Issuer's holdings of trading and investment securities, including structured products. The value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely in recent years. A depreciation of the Won will increase the Issuer's cost in Won for servicing the Issuer's foreign currency-denominated debt, while continued exchange rate volatility may also result in foreign exchange losses for the Issuer. Furthermore, as a result of adverse global and Korean economic conditions, there has been significant volatility in securities prices, including the stock prices of Korean and foreign companies in which the Issuer holds an interest. Such volatility has resulted in and may lead to further trading and valuation losses on the Issuer's trading and investment securities portfolio as well as impairment losses on its investments accounted for under the equity method.

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

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

In July 2012, the Korea Fair Trade Commission (the **KFTC**) commenced an investigation into alleged collusion among domestic financial institutions, including banks and securities companies, in setting interest rates applicable to three-month certificates of deposit. Such rates were used as a benchmark for banks' lending rates until a new benchmark rate for bank lending was introduced in December 2012. In February 2016, the KFTC sent its formal written report of findings to six commercial banks, including the Issuer, and the respondents submitted their response briefs in April 2016. In July 2016, citing insufficient evidence to prove violation of Korean fair trade laws, the KFTC announced that it has decided to terminate its investigation. However, the KFTC noted that it could resume its investigation in the future if it finds sufficient evidence to prove that the domestic commercial banks violated Korea fair trade laws. See "*Business—Legal Proceedings*."

The Issuer is unable to predict the outcome of many of the legal claims and regulatory actions in which it is involved, and the scope of the claims or actions or the total amount in dispute in such matters may increase. Furthermore, adverse final determinations, decisions or resolutions in such matters could encourage other parties to bring related claims and actions against the Issuer. Accordingly, the outcome of current and future legal claims and regulatory actions, particularly those for which it is difficult to assess the maximum potential exposure or the ultimate adverse impact with any degree of certainty, may materially and adversely impact the Issuer's business, reputation, results of operations and financial condition.

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

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

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

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

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

A substantial portion of the Issuer's loans is secured by real estate, the values of which have fluctuated significantly in recent years. Although it is the Issuer's general policy to lend up to 70% of the appraised value of collateral and to periodically re-appraise its collateral, the downturn in the real estate market in Korea in recent years has resulted in declines in the value of the collateral securing the Issuer's mortgage and home equity loans. If collateral values decline further in the future, they may not be sufficient to cover uncollectible amounts in respect of the Issuer's secured loans. Any future declines in the value of the real estate or other collateral securing the Issuer's loans, or its inability to obtain additional collateral in the event of such declines, could result in a deterioration in the Issuer's asset quality and may require the Issuer to take additional loan loss provisions.

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

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

As of December 31, 2016, the Issuer held debt securities issued by Korean companies and financial institutions (other than those issued by Korea Housing Finance Corporation, the Bank of Korea (the **BOK**), Korea Development Bank, Korea Land & Housing Corporation, Korea Deposit Insurance Corporation (the **KDIC**) and Industrial Bank of Korea, which are government-owned or -controlled enterprises or financial institutions) with a total carrying amount of ₩12,255 billion in the Issuer's trading and investment securities portfolio. The market value of these securities could decline significantly due to various factors, including future increases in interest rates or a deterioration in the financial and economic condition of any particular issuer or of Korea in general. Any of these factors individually or a combination of these factors would require the Issuer to write down the fair value of these debt securities, resulting in impairment losses. Because the secondary market for corporate bonds in Korea is not fully developed, the market value of many of these securities as reflected on the Issuer's statements of financial position is determined by references to suggested prices posted by Korean rating agencies or the Korea Securities Dealers Association. These valuations, however, may differ significantly from the actual value that the Issuer could realise in the event it elects to sell these securities. As a result, the Issuer may not be able to realise the full "marked-to-market" value at the time of any such sale of these securities and thus may incur losses.

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

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

If, at any time, the income from the Issuer's guaranteed trust accounts is not sufficient to pay any guaranteed amount, the Issuer will have to cover the shortfall first from the special reserves maintained in these trust accounts, then from the Issuer's fees from such trust accounts and finally from funds transferred from the Issuer's general banking operations. As of December 31, 2016, the Issuer had ₩103 billion of special reserves in respect of trust accounts for which the Issuer provided guarantees of principal. There was no transfer from general banking operations to cover deficiencies in guaranteed trust accounts in 2014, 2015 and 2016. However, the Issuer may be required to make transfers from its general banking operations to cover shortfalls, if any, in its guaranteed trust accounts in the future. Such transfers may adversely impact the Issuer's results of operations.

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

With the proliferation of new technologies and the increasing use of the Internet and mobile devices to conduct financial transactions, the Issuer's operations as a large financial institution have been, and will continue to be, subject to an increasing risk of cyber incidents relating to these activities, the nature of which is continually evolving. The Issuer's computer systems, software and networks are subject to cyber incidents, such as disruptions, delays or other difficulties from its information technology system, computer viruses or other malicious codes, loss or destruction of data (including confidential client information), unauthorised access, account takeover attempts and cyber-attacks. A significant portion of the Issuer's daily operations relies on its information technology systems, including customer service, billing, the secure processing, storage and transmission of confidential and other information as well as the timely monitoring of a large number of complex transactions. Although the Issuer has made substantial and continuous investments to build systems and defences to address cybersecurity and other technological risks, there is no guarantee that such measures or any other measures can provide adequate security. In addition, because methods used to cause cyber-attacks change frequently or, in some cases, are not recognised until launched, the Issuer may be unable to implement effective preventive measures or proactively address these methods. Furthermore, these cyber threats may arise from human error, accidental technological failure and third parties with whom the Issuer does business. Although the Issuer maintains insurance coverage that may cover certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses. If the Issuer were to be subject to a cyber incident, it could result in the disclosure of confidential client information, damage to its reputation with its customers and in the market, customer dissatisfaction, additional costs to the Issuer, regulatory penalties, exposure to litigation and other financial losses to both the Issuer and its customers, which could have an adverse effect on the Issuer's business and results of operations.

Risks Relating to Liquidity and Capital Management

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

Interest rates in Korea have been subject to significant fluctuations in recent years. In an effort to stem inflation amid improved growth prospects, the BOK gradually increased its policy rate in 2010 and 2011 by a total of 125 basis points to 3.25%. However, the BOK reduced its policy rate to 2.00% through a series of reductions from 2012 to 2014 to support Korea's economy in light of the slowdown in Korea's growth and uncertain global economic prospects. The BOK further reduced its policy rate to 1.50% in 2015 and again to an unprecedented 1.25% in June 2016 amid deflationary concerns and interest rate cuts by central banks around the world. All else being equal, an increase in interest rates in the future could lead to a decline in the value of the Issuer's portfolio of debt securities, which generally pay interest based on a fixed rate. A sustained increase in interest rates will also raise the Issuer's funding costs, while reducing loan demand, especially among consumers. Rising interest rates may therefore require the Issuer to re-balance its asset portfolio and its liabilities in order to minimise the risk of potential mismatches and maintain its profitability.

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

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

The Issuer meets a significant amount of its funding requirements through short-term funding sources, which consist primarily of customer deposits. As of December 31, 2016, approximately 94.6% of the Issuer's deposits had maturities of one year or less or were payable on demand. In the past, a substantial proportion of the Issuer's customer deposits have been rolled over upon maturity. The Issuer cannot guarantee, however, that depositors will continue to roll over their deposits in the future. In the event that a substantial number of the Issuer's short-term deposit customers withdraw their funds or fail to roll over their deposits as higher-yielding investment opportunities emerge, the Issuer's liquidity position could be adversely affected. The Issuer may also be required to seek more expensive sources of short-term and long-term funding to finance its operations. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition—Liquidity.*"

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

Under the capital adequacy requirements of the FSC, the Issuer is required to maintain a minimum common equity Tier I capital adequacy ratio of 4.5%, Tier I capital adequacy ratio of 6.0% and combined Tier I and Tier II capital adequacy ratio of 8.0%, on a consolidated basis. As of December 31, 2016, the Issuer's common equity Tier I capital, Tier I capital and combined Tier I and Tier II capital adequacy ratios were 14.83%, 14.83% and 16.32%, respectively, all of which exceeded the minimum levels required by the FSC. However, the Issuer's capital base and capital adequacy ratios may deteriorate in the future if its results of operations or financial condition deteriorates for any reason, including as a result of a deterioration in the asset quality of the Issuer's retail loans and loans to SMEs, or if the Issuer is not able to deploy its funding into suitably low-risk assets.

The current capital adequacy requirements of the FSC are derived from a new set of bank capital measures, referred to as Basel III, which the Basel Committee on Banking Supervision initially introduced in 2009 and began phasing in starting from 2013. Commencing in July 2013, the FSC promulgated a series of amended regulations implementing Basel III, pursuant to which Korean banks and bank holding companies were required to maintain a minimum ratio of common equity Tier I capital (which principally includes equity capital, capital surplus and retained earnings less reserve for credit losses) to risk-weighted assets of 3.5% and Tier I capital to risk-weighted assets of 4.5% from December 1, 2013, which minimum ratios were increased to 4.0% and 5.5%, respectively, from January 1, 2014 and increased further to 4.5% and 6.0%, respectively, from January 1, 2015. Such requirements are in addition to the pre-existing requirement for a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8.0%, which remains unchanged. The amended regulations also require an additional capital conservation buffer of 0.625% in 2016 and 1.25% in 2017, with such buffer to increase in stages to 2.5% by 2019, as well as a potential counter-cyclical capital buffer of up to 2.5% starting in 2016, which is determined on a quarterly basis by the FSC. Furthermore, the Issuer was designated as one of five domestic systemically important banks for 2016 by the FSC and was subject to an additional capital requirement of 0.25% in 2016. In December 2016, the Issuer was designated as a domestic systemically important bank for 2017, which would subject the Issuer to an additional capital requirement of 0.50% in 2017, if deemed necessary, with such potential requirement to increase in stages to 1.0% by 2019. The implementation of Basel III in Korea may have a significant effect on the capital requirements of Korean financial institutions, including the Issuer. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition—Capital Adequacy*" and "*Regulation and Supervision—Legal and Regulatory Framework in Korea—Capital Adequacy.*"

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

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

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

Risks Relating to Government Regulation and Policy

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

As a financial service provider, the Issuer is subject to a variety of regulations in Korea that are designed to protect financial consumers. In recent years, in light of heightened public concern regarding privacy issues, the Government has placed greater emphasis on protection of personal information by financial institutions and has implemented a number of measures to enhance consumer protection. Under the Personal Information Protection Act, as amended in July 2015, financial institutions, as personal information managers, may not collect, store, maintain, utilise or provide resident registration numbers of their customers, unless other laws or regulations specifically require or permit the management of resident registration numbers. In addition, under the Use and Protection of Credit Information Act, as amended in March 2015, a financial institution has a higher duty to protect all information that it collects from its customers and is required to treat such information as credit information. A financial institution's ability to transfer or provide the information to its affiliates or holding company is considerably restricted. Treble damages based on compensatory damages may be imposed on a financial institution for leakage of such information. Furthermore, under the Electronic Financial Transaction Act, as last amended in January 2016, a financial institution is primarily responsible for compensating its customers harmed by a cyber security breach affecting the financial institution even if the breach is not directly attributable to the financial institution.

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

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

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

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

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

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

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

- capital increases or reductions;
- stock cancellations or consolidations;
- transfers of businesses;
- sales of assets;
- closures of subsidiaries or branch offices;
- mergers with other financial institutions; and
- suspensions of a part of the Issuer's business operations.

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

Risks Relating to Korea

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

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In particular, since the death of Kim Jong-il in December 2011, there has been increased uncertainty with respect to the future of North Korea's political leadership and concern regarding its implications for political and economic stability in the region. Although Kim Jong-il's third son, Kim Jong-eun, has assumed power as his father's designated successor, the long-term outcome of such leadership transition remains uncertain.

In addition, there have been heightened security concerns in recent years stemming from North Korea's nuclear weapon and long-range missile programmes 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 programme and it conducted additional ballistic missile tests in June 2016, a submarine-launched ballistic missile test in August 2016 and intermediate-range ballistic missile tests in February and March 2017. In February and March 2017, 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 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 demilitarised zone. Claiming the landmines were set by North Koreans, the Korean army re-initiated its propaganda programme toward North Korea utilising loudspeakers near the demilitarised zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas.
- In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

North Korea's economy also faces severe challenges, which may further aggravate social and political pressures within North Korea. There can be no assurance that the level of tensions affecting the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea break down or further military hostilities occur, could have a material adverse effect on the Korean economy and on the Issuer's business, financial condition and results of operations and the market price and ratings of the Notes.

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

The Issuer is incorporated in Korea, and substantially all of its operations are located in Korea. As a result, the Issuer is subject to political, economic, legal and regulatory risks specific to Korea. The economic indicators in Korea in recent years have shown mixed signs of growth and uncertainty, and future growth of the economy is subject to many factors beyond the Issuer's control.

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

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

- adverse conditions or uncertainty in the economies of countries and regions that are important export markets for Korea, such as China, the United States, Europe and Japan, or in emerging market economies in Asia or elsewhere, as well as increased uncertainty in light of a future Brexit;

- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, the Euro or the Japanese Yen exchange rates or revaluation of the Chinese Renminbi), interest rates, inflation rates or stock markets;
- 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 and the ensuing economic and other retaliatory measures imposed by China against Korea);
- increased sovereign default risks in select countries and the resulting adverse effects on the global financial markets;
- a continuing rise in the level of household debt and increasing delinquencies and credit defaults by retail or SME borrowers in Korea;
- declines in consumer confidence and a slowdown in consumer spending;
- the recent political scandal in Korea involving a confidant of the President and the resulting public protests, as well as related investigations of large Korean *chaebols* and their senior management for bribery, embezzlement and other possible misconduct;
- social and labour unrest;
- decreases in the market prices of Korean real estate;
- a decrease in tax revenues and a substantial increase in the Government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programmes that, together, would lead to an increased Government budget deficit;
- financial problems or lack of progress in the restructuring of *chaebols*, other large troubled companies and their suppliers;
- loss of investor confidence arising from corporate accounting irregularities, allegations of corruption and corporate governance issues concerning certain *chaebols*;
- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;
- the economic impact of any pending or future free trade agreements;
- geo-political uncertainty and risk of further attacks by terrorist groups around the world;
- natural or man-made disasters that have a significant adverse economic or other impact on Korea (such as the sinking of the Sewol ferry in 2014, which significantly dampened consumer sentiment in Korea) or its major trading partners;
- the occurrence of severe health epidemics in Korea or other parts of the world, such as the Middle East Respiratory Syndrome outbreak in Korea in 2015;
- political uncertainty or increasing strife among or within political parties in Korea;
- hostilities or political or social tensions involving oil producing countries in the Middle East and North Africa and any material disruption in the global supply of oil or sudden increase in the price of oil;
- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States; and
- changes in financial regulations in Korea.

Political and social unrest surrounding the impeachment of President Park Geun-hye could adversely affect the Korean economy.

In November 2016, the Korean prosecutor's office indicted a confidant of President Park Geun-hye who had allegedly used her ties with the President to extort donations from Korean business groups for two non-profit foundations over which she is purported to have substantial influence, as well as a number of current and former presidential aides, on charges of, among others, abuse of power, coercion and leaking classified documents. On November 30, 2016, a special independent prosecutor was appointed to conduct an investigation of the extent of the President's involvement, and mass weekend rallies were held in Seoul and other cities both to protest against, and to express support for, President Park.

On December 9, 2016, the National Assembly voted in favour of impeaching President Park for a number of alleged constitutional and criminal violations, including violation of the Constitution and abuse of power by allowing her confidant to exert influence on state affairs and allowing senior presidential aides to aid in her extortion from companies. President Park was suspended from power immediately, with the prime minister simultaneously taking over the role of acting President. On March 10, 2017, the Constitutional Court unanimously upheld the parliamentary vote to impeach President Park, triggering her immediate dismissal. A special election to elect a new President is scheduled to be held on May 9, 2017. The special independent prosecutor also conducted related investigations of several large Korean business groups and members of their senior management for bribery, embezzlement and other possible misconduct. The Korean prosecutor's office is expected to continue such investigations. There is no assurance that such events will not have a material adverse effect on the Korean economy.

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

Economic difficulties in Korea or increases in corporate reorganisations and bankruptcies could result in layoffs and higher unemployment. Such developments could lead to social unrest and substantially increase government expenditures for unemployment compensation and other costs for social programmes. According to statistics from the Korea National Statistical Office, the unemployment rate increased from 3.5% in 2014 to 3.6% in 2015 and 3.7% in 2016. Future increases in unemployment and any resulting labour unrest could adversely affect the Issuer's operations, as well as the operations of many of the Issuer's customers and their ability to repay their loans, and could adversely affect the financial condition of Korean companies in general, depressing the price of their securities. These developments would likely have an adverse effect on the Issuer's financial condition and results of operations.

Risks Relating to the Notes

The Notes are unsecured obligations.

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

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

If any of these events occurs, the Issuer's assets may not be sufficient to pay amounts due on any of the Notes.

The Notes that are Subordinated Notes are subordinated and have only limited rights of acceleration.

The applicable Pricing Supplement may specify that the Notes will be Subordinated Notes (as defined in Condition 3(b) of the Terms and Conditions of the Notes), which will be subordinated obligations of the Issuer. Payments on the Subordinated Notes will be subordinated in right of payment upon the occurrence of a Subordination Event (as defined in Condition 3(b) of the Terms and Conditions of the Notes) to the prior payment in full of all deposits and other liabilities of the Issuer, except those liabilities which rank equally with or junior to the Subordinated Notes. As a consequence of these subordination provisions, if any of such events should occur, the holders of the Subordinated Notes may recover proportionately less than the holders of the Issuer's deposit liabilities or the creditors with respect to its other unsubordinated liabilities.

Only those events described herein regarding the Issuer's bankruptcy or insolvency will permit a holder of a Subordinated Note to accelerate payment of such Subordinated Notes. In such event, the only action the holder may take in Korea against the Issuer is certain actions to cause, or make a claim in, the Issuer's liquidation or reorganisation. Furthermore, if the Issuer's indebtedness were to be accelerated, its assets may be insufficient to repay in full borrowings under all such debt instruments, including the Subordinated Notes.

The Notes are subject to transfer restrictions.

The Notes will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except to QIBs in reliance on the exemption provided by Rule 144A, to certain persons in offshore transactions in reliance on Regulation S, or pursuant to another exemption from, or in another transaction not subject to, the registration requirements of the Securities Act and in accordance with applicable state securities laws. For a further discussion of the transfer restrictions applicable to the Notes, see "*Subscription and Sale and Transfer and Selling Restrictions*."

The Notes may have limited liquidity.

Any Notes issued under the Programme will constitute a new issue of securities for which there is no existing market. Approval in-principle has been received for the listing and quotation of Notes that may be issued under the Programme and which are agreed, at or prior to the time of issue thereof, to be listed on the Singapore Stock Exchange. The offer and sale of the Notes is not conditional on obtaining a listing of the Notes on the Singapore Stock Exchange or any other exchange.

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

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

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

Notes issued under the Programme may be represented by one or more Global Notes. Such Global Notes will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg and/or DTC (each of Euroclear, Clearstream, Luxembourg, DTC, a **Clearing System**). Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive definitive Notes. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by one or more Global Notes, investors will be able to trade their beneficial interests only through the Clearing Systems.

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

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

CAPITALISATION

The following table sets forth the Issuer's capitalisation, defined as the sum of its borrowings and debentures and its equity, as of December 31, 2016:

	As of December 31, 2016[(1)]
	(in billions of Won)
Borrowings and debentures[(2)]	26,912
Equity	
Common stock, par value ₩5,000	
Authorised—1,000,000,000 shares	
Issued and outstanding common stock—404,379,116 shares	2,022
Capital surplus	5,220
Accumulated other comprehensive income	495
Retained earnings	15,589
Non-controlling interests in equity	—
Total equity	23,325
Total capitalisation	50,237

Note:

(1) There has been no material change in the capitalisation of the Issuer since December 31, 2016.

(2) Consists of borrowings of ₩11,952 billion and debentures of ₩14,960 billion.

SELECTED FINANCIAL AND OPERATING DATA

Selected Financial Data

The selected financial data set forth below as of and for the years ended December 31, 2014, 2015 and 2016 have been derived from the Issuer's audited consolidated financial statements. The financial statements have been prepared in accordance with Korean IFRS. See "*General Information—Independent Accountants*" for information about the Issuer's independent accountants.

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

	Years ended December 31,		
	2014	2015	2016
	(in billions of Won)		
Consolidated statements of comprehensive income			
Interest income	9,703	8,388	7,894
Interest expense	(4,731)	(3,677)	(3,065)
Net interest income	4,971	4,712	4,829
Fee and commission income	1,271	1,372	1,310
Fee and commission expense	(193)	(216)	(223)
Net fee and commission income	1,078	1,156	1,088
Net gains on financial assets/liabilities at fair value through profit and loss	356	287	197
Net other operating expenses	(769)	(422)	(401)
General and administrative expenses	(3,373)	(3,812)	(4,269)
Operating profit before provision for credit losses	2,264	1,922	1,444
Provision for credit losses	(888)	(742)	(254)
Operating profit	1,377	1,180	1,189
Share of profit (loss) of associates	18	8	18
Net other non-operating income (expenses)	(34)	193	49
Net non-operating profit (loss)	(16)	201	67
Profit before income tax expense	1,360	1,381	1,256
Income tax expenses	(331)	(274)	(292)
Profit for the year	1,029	1,107	₩ 964
(Adjustment in profit of regulatory reserve for credit losses)	852	1,140	798
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit liabilities	(84)	(14)	8
Items that may be reclassified subsequently to profit or loss:			
Currency translation adjustments	17	45	(5)
Valuation gains (losses) on financial investments	222	(78)	(2)
Share of other comprehensive income (loss) of associates	(33)	3	0
Gain (loss) on hedging instruments of net investments in foreign operations	—	(25)	(7)
Cash flow hedges	—	—	0
Other comprehensive income (loss) for the period, net of tax	123	(70)	(6)
Total comprehensive income for the period	1,152	1,037	958
Profit attributable to:			
Shareholders of the parent company	1,029	1,107	964
Non-controlling interests	—	—	—
	1,029	1,107	964
Total comprehensive income attributable to:			
Shareholders of the parent entity	1,152	1,037	958
Non-controlling interests	—	—	—

	As of December 31,		
	2014	2015	2016
	(in billions of Won)		
Consolidated balance sheet data			
Assets			
Cash and due from financial institutions	13,974	14,563	14,682
Financial assets at fair value through profit or loss	7,520	6,488	7,956
Derivative financial assets	1,910	2,186	2,796
Loans	211,526	222,738	236,551
Financial investments	29,259	32,912	35,732
Investments in associates	667	670	368
Property and equipment	2,888	2,909	3,117
Investment property	409	413	373
Intangible assets	207	182	211
Current income tax assets	306	18	12
Deferred income tax assets	5	8	48
Assets held for sale	54	34	27
Other assets	6,729	7,157	5,193
Total assets	275,454	290,278	307,066
Liabilities			
Financial liabilities at fair value through profit or loss profit or loss	52	69	73
Derivative financial liabilities	1,759	2,139	2,834
Deposits	211,611	224,334	235,736
Debts	14,297	14,292	15,934
Debentures	15,250	15,949	14,960
Provisions	483	450	425
Net defined benefit liabilities	57	56	71
Current income tax liabilities	8	7	5
Deferred income tax liabilities	110	165	—
Other liabilities	9,884	10,070	13,703
Total liabilities	253,513	267,531	283,741
Equity			
Capital stock	2,022	2,022	2,022
Capital surplus	5,220	5,220	5,220
Accumulated other comprehensive income	571	501	495
Retained earnings	14,128	15,005	15,589
(Provision of regulatory reserve for credit losses)	(1,691)	(1,868)	(1,835)
(Amounts estimated to be appropriated)	(177)	33	(166)
Equity attributable to shareholders of the parent company	21,940	22,747	23,325
Non-controlling interest equity	—	—	—
Total equity	21,940	22,747	23,325
Total liabilities and equity	275,454	290,278	307,066

Selected Financial and Operating Data

Selected Operating Data

Unless otherwise stated, the selected ratios set forth below as of and for the years ended December 31, 2014, 2015 and 2016 are calculated based on the separate financial statements of the Issuer prepared in accordance with Korean IFRS, which are not included in this Offering Circular.

	As of or for the years ended December 31,		
	2014	**2015**	**2016**
Profit as a percentage of:			
Average total assets(1)	0.40%	0.38%	0.33%
Average equity(1)	5.02	4.72	4.17
Ratio of non-performing credits to total credits(2)	1.03	0.84	0.61
Ratio of allowance to total credits(2)	1.74	1.66	1.46
Net interest spread(3)	1.74	1.55	1.54
Net interest margin(4)	1.81	1.61	1.58
Total capital adequacy ratio(5)(9)	15.97	16.01	16.32
Tier I capital adequacy ratio(6)(9)	13.38	13.74	14.83
Common equity Tier I capital adequacy ratio(7)(9)	13.38	13.74	14.83
Tier II capital adequacy ratio(8)(9)	2.59	2.27	1.49

Notes:

(1) Derived by dividing profit by the daily average balance of total assets or total equity, as applicable, in each case calculated in accordance with applicable FSS reporting guidelines.

(2) Includes loans, guarantees and other credits in both the banking and trust accounts, calculated in accordance with applicable FSS reporting guidelines.

(3) Represents the difference between the average annual rate of interest earned on interest earning assets and the average annual rate of interest paid on interest bearing liabilities, calculated in accordance with applicable FSS reporting guidelines.

(4) Derived by dividing net interest income by average interest earning assets, calculated in accordance with applicable FSS reporting guidelines.

(5) Calculated as the ratio of the sum of Tier I and Tier II capital to risk-weighted assets, on a consolidated basis and in accordance with guidelines issued by the FSC. See "*Regulation and Supervision—Legal and Regulatory Framework in Korea—Capital Adequacy*."

(6) Calculated as the ratio of Tier I capital to risk-weighted assets, on a consolidated basis and in accordance with guidelines issued by the FSC. See "*Regulation and Supervision—Legal and Regulatory Framework in Korea—Capital Adequacy.*"

(7) Calculated as the ratio of common equity Tier I capital to risk-weighted assets, on a consolidated basis and in accordance with guidelines issued by the FSC. See "*Regulation and Supervision—Legal and Regulatory Framework in Korea—Capital Adequacy.*"

(8) Calculated as the ratio of Tier II capital to risk-weighted assets, on a consolidated basis and in accordance with guidelines issued by the FSC. See "*Regulation and Supervision—Legal and Regulatory Framework in Korea—Capital Adequacy.*"

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

SELECTED STATISTICAL DATA

Average Balance Sheets and Related Interest

The following tables show the Issuer's average balances and interest rates for the years ended December 31, 2014, 2015 and 2016.

	Year ended December 31,								
	2014			2015			2016		
	Average Balance	Interest Income(1)	Average Yield	Average Balance	Interest Income(1)(2)	Average Yield	Average Balance	Interest Income(1)(2)	Average Yield
	(in billions of Won, except percentages)								
Assets									
Interest earning assets									
Cash and interest earning deposits in other banks	6,286	143	2.27%	7,124	112	1.57%	5,976	72	1.20%
Financial investment (debt securities)	26,486	922	3.48	27,832	779	2.28	28,436	679	2.39
Loans:									
Corporate	100,194	4,050	4.04	103,647	3,482	3.36	109,338	3,258	2.98
Mortgage	47,992	1,728	3.60	51,386	1,549	3.01	55,437	1,508	2.72
Home equity	32,030	1,211	3.78	33,503	1,043	3.11	33,955	975	2.87
Other consumer	26,890	1,573	5.85	27,571	1,354	4.91	30,774	1,326	4.31
Foreign	2,631	76	2.89	2,794	69	2.47	3,011	76	2.52
Loans (total)	209,737	8,638	4.12	218,901	7,497	3.42	232,515	7,143	3.07
Total average interest earning assets	242,509	9,703	4.00	253,657	8,388	3.31	266,927	7,894	2.96
Non-interest earning assets									
Cash and due from banks	7,976	—	—	8,803	—	—	9,794	—	—
Financial assets at fair value through profit or loss (total)	6,878	—	—	6,848	—	—	7,180	—	—
Debt securities	6,687	—	—	6,725	—	—	7,052	—	—
Equity securities	144	—	—	61	—	—	58	—	—
Other	47	—	—	62	—	—	70	—	—
Financial investment (equity securities)	2,716	—	—	2,818	—	—	5,600	—	—
Investment in associates	677	—	—	647	—	—	485	—	—
Derivative financial assets	1,692	—	—	2,066	—	—	2,337	—	—
Premises and equipment	3,044	—	—	3,055	—	—	3,105	—	—
Intangible assets	201	—	—	194	—	—	191	—	—
Allowances for loan losses	(2,924)	—	—	(2,283)	—	—	(2,084)	—	—
Other non-interest earning assets	5,529	—	—	6,078	—	—	6,522	—	—
Total average non-interest earning assets	25,789	—	—	28,226	—	—	33,130	—	—
Total average assets	268,298	9,703	3.62%	281,883	8,388	2.98%	300,057	7,894	2.63%

Notes:

(1) The Issuer does not invest in any tax-exempt securities.

(2) Excludes interest income from debt securities at fair value through profit or loss.

	Year ended December 31,								
	2014			2015			2016		
	Average Balance	Interest Expense	Average Cost	Average Balance	Interest Expense	Average Cost	Average Balance	Interest Expense	Average Cost
	(in billions of Won, except percentages)								
Liabilities									
Interest bearing liabilities									
Deposits:									
Demand deposits	67,598	284	0.42%	82,693	287	0.35%	97,489	288	0.30%
Certificates of deposit	1,692	46	2.72	3,671	70	1.91	3,387	56	1.65
Time deposits	130,177	3,512	2.70	123,845	2,673	2.16	124,741	2,111	1.69
Deposits (total)	199,467	3,842	1.93	210,209	3,030	1.44	225,617	2,455	1.09
Debts	17,874	294	1.64	18,437	228	1.24	18,407	213	1.16
Debentures	15,135	594	3.92	15,318	419	2.74	16,117	397	2.46
Total average interest-bearing liabilities	232,476	4,731	2.04	243,964	3,677	1.51	260,141	3,065	1.18
Non-interest bearing liabilities									
Non-interest bearing demand deposits	3,565	—	—	3,836	—	—	4,073	—	—
Derivative financial liabilities	1,634	—	—	1,994	—	—	2,307	—	—
Financial liabilities at fair value through profit and loss	47	—	—	62	—	—	77	—	—
Other non-interest bearing liabilities	9,371	—	—	9,567	—	—	10,048	—	—
Total average non-interest bearing liabilities	14,617	—	—	15,459	—	—	16,505	—	—
Total average liabilities	247,093	4,731	1.91	259,423	3,677	1.42	276,646	3,065	1.11
Total equity	21,205	—	—	22,460	—	—	23,411	—	—
Total average liabilities and equity	268,298	4,731	1.76%	281,883	3,677	1.30%	300,057	3,065	1.02%

Analysis of Changes in Net Interest Income—Volume and Rate Analysis

The following table provides an analysis of changes in the Issuer's interest income, interest expense and net interest income based on changes in volume and changes in rate for 2015 compared to 2014, 2016 compared to 2015. Information is provided with respect to: (1) effects attributable to changes in volume (changes in volume multiplied by prior rate) and (2) effects attributable to changes in rate (changes in rate multiplied by prior volume). Changes attributable to the combined impact of changes in rate and volume have been allocated proportionately to the changes due to volume changes and changes due to rate changes.

	2015 vs. 2014 Increase/(decrease) due to changes in			2016 vs. 2015 Increase/(decrease) due to changes in		
	Volume	Rate	Total	Volume	Rate	Total
	(in billions of Won, except percentages)					
Interest earning assets						
Cash and interest earning deposits in other banks	17	(48)	(31)	(16)	(24)	(40)
Financial investment (debt securities)	38	(181)	(143)	22	(122)	(100)
Loans:						
Corporate	135	(703)	(568)	184	(408)	(224)
Mortgage	117	(296)	(179)	116	(157)	(41)
Home Equity	54	(222)	(168)	14	(82)	(68)
Other consumer	39	(258)	(219)	148	(176)	(28)
Foreign	5	(12)	(7)	6	1	7
Interest bearing liabilities	405	(1,720)	(1,315)	474	(968)	(494)
Deposits:						
Demand deposits	56	(53)	3	47	(46)	1
Certificate of deposits	41	(17)	24	(5)	(9)	(14)
Other time deposits	(164)	(675)	(839)	19	(581)	(562)
Debts	9	(75)	(66)	0	(15)	(15)
Debentures	7	(182)	(175)	22	(44)	(22)
Total interest expense	(51)	(1,003)	(1,054)	83	(695)	(612)
Interest net interest income	456	(717)	(261)	391	(273)	118

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

The following discussion and analysis is based on the Issuer's consolidated financial statements as of and for the years ended December 31, 2014, 2015 and 2016. This discussion should be read together with the Issuer's consolidated financial statements and related notes included elsewhere in this Offering Circular. Unless otherwise specified, the information provided below is stated on a consolidated basis.

The Issuer prepares its financial statements in accordance with Korean IFRS, which differs in certain significant respects from U.S. GAAP. The Issuer has made no attempt to identify or quantify the impact of differences between Korean IFRS and U.S. GAAP.

OVERVIEW

Trends in the Korean Economy

The Issuer's financial position and results of operations have been and will continue to be significantly affected by financial and economic conditions in Korea. In recent years, commercial banks, consumer finance companies and other financial institutions in Korea have made significant investments and engaged in aggressive marketing in retail lending (including mortgage and home equity loans), leading to substantially increased competition in this segment. Furthermore, in 2014 and 2015, the Government implemented several measures to encourage consumer spending and revive the housing market in Korea, including loosening regulations on mortgage lending, which contributed to an increase in the Issuer's portfolio of retail loans, on a separate basis, from ₩112,042 billion as of December 31, 2014 to ₩123,627 billion as of December 31, 2016. However, the Government introduced measures in the second half of 2016 to tighten regulations on mortgage lending and housing subscription in response to the rapid growth in consumer debt and concerns over speculative investments in real estate in certain regions of Korea. Signs of decreases in housing prices following the implementation of such measures, together with the high level of consumer debt, could result in further declines in consumer spending and reduced economic growth, which may lead to increases in delinquency levels of the Issuer's retail loan portfolio. On a separate basis, the Issuer recorded charge-offs of ₩253 billion and provision for loan losses of ₩11 billion in respect of its retail loan portfolio in 2016, compared to charge-offs of ₩520 billion and provision for loan losses of ₩308 billion in 2014. See "*Risk Factors—Risks Relating to the Issuer's Retail Credit Portfolio*."

The Issuer's loans to SMEs increased from ₩70,516 billion as of December 31, 2014 to ₩82,216 billion as of December 31, 2016. Substantial growth in lending in Korea to SMEs in recent years, and financial difficulties experienced by such enterprises as a result of, among other things, adverse economic conditions in Korea and globally, may lead to increasing delinquencies and a deterioration in overall asset quality in the credit exposures of Korean banks to SMEs. On a separate basis, the Issuer recorded charge-offs of ₩446 billion in 2016 in respect of its loans to SMEs, compared to charge-offs of ₩725 billion in 2014. See "*Risk Factors—Risks Relating to the Issuer's Small- and Medium-Sized Enterprise (SME) Loan Portfolio—The Issuer has significant exposure to SMEs, and any financial difficulties experienced by these customers may result in a deterioration of the Issuer's asset quality and have an adverse impact on the Issuer.*"

The Korean economy is closely tied to, and is affected by developments in, the global economy. The overall prospects for the Korean and global economy remain uncertain. In recent years, the global financial markets have experienced significant volatility as a result of, among other things:

- the financial difficulties affecting many governments worldwide, in particular in Europe and Latin America;
- the slowdown of economic growth in China and other major emerging market economies;
- interest rate fluctuations as well as the possibility of further increases in policy rates by the U.S. Federal Reserve and other central banks; and
- political and social instability in various countries in the Middle East, including Syria, Iraq and Yemen, as well as the recent referendum in the United Kingdom in June 2016, in which a majority of voters voted in favour of Brexit.

In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets, and in turn on the Issuer's business, financial condition and results of operations.

The Issuer is also exposed to adverse changes and volatility in global and Korean financial markets as a result of the Issuer's liabilities and assets denominated in foreign currencies and the Issuer's holdings of trading and investment securities, including structured products. The value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely in recent years. A depreciation of the Won will increase the Issuer's cost in Won for servicing the Issuer's foreign currency-denominated debt, while continued exchange rate volatility may also result in foreign exchange losses for the Issuer. Furthermore, as a result of adverse global and Korean economic conditions, there has been significant volatility in securities prices, including the stock prices of Korean and foreign companies in which the Issuer holds an interest. Such volatility has resulted in and may lead to further trading and valuation losses on the Issuer's trading and investment securities portfolio as well as impairment losses on its investments accounted for under the equity method.

As a result of volatile conditions and weakness in the Korean and global economies, as well as factors such as the uncertainty surrounding the global financial markets, fluctuations in oil and commodity prices, interest and exchange rate fluctuations, higher unemployment, lower consumer confidence, increased stock market volatility, potential tightening of fiscal and monetary policies and continued tensions with North Korea, the economic outlook for the financial services sector in Korea in 2017 and for the foreseeable future remains uncertain.

Changes in Securities Values, Exchange Rates and Interest Rates

Fluctuations of exchange rates, interest rates and stock prices affect, among other things, the demand for the Issuer's products and services, the value of and rate of return on the Issuer's assets, the availability and cost of funding and the financial condition of the Issuer's customers. The following table shows, for the dates indicated, the stock price index of all equities listed on the KRX KOSPI Market as published in the KOSPI, the Won to U.S. dollar exchange rates and benchmark Won borrowing interest rates.

	June 30, 2014	Dec. 31, 2014	June 30, 2015	Dec. 31, 2015	June 30, 2016	Dec. 31, 2016
KOSPI	2,002.21	1,915.59(4)	2,074.20	1,961.31(5)	1,970.35	2,026.46(6)
₩/US$ exchange rates(1)	1,014.4	1,099.2	1,124.1	1,172.8	1,164.7	1,208.5
Corporate bond rates(2)	3.10%	2.43%	2.01%	2.11%	1.69%	2.13%
Treasury bond rates(3)	2.68%	2.10%	1.79%	1.66%	1.25%	1.64%

Notes:

(1) Represents the Market Average Exchange Rate.

(2) Measured by the yield on three-year Korean corporate bonds rated as AA- by the Korean credit rating agencies.

(3) Measured by the yield on three-year treasury bonds issued by the Ministry of Strategy and Finance of Korea.

(4) As of December 30, 2014, the last day of trading for the KRX KOSPI Market in 2014.

(5) As of December 30, 2015, the last day of trading for the KRX KOSPI Market in 2015.

(6) As of December 29, 2016, the last day of trading for the KRX KOSPI Market in 2016.

Changes in Accounting Policies

For information regarding recent changes to Korean IFRS and the Issuer's accounting policies and their effect on its consolidated financial statements, see Note 2.1 of the notes to the Issuer's consolidated financial statements included elsewhere in this Offering Circular.

Critical Accounting Policies

The Issuer's 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 Korean IFRS. The preparation of these financial statements requires the Issuer to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities. See Note 2 of the notes to the Issuer's consolidated financial statements included elsewhere in this Offering Circular for summaries of the Issuer's significant accounting policies that are critical to the portrayal of the Issuer's financial condition since they require the Issuer's management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain, and because of the possibility that future events affecting these estimates may differ significantly from management's current judgment.

RESULTS OF OPERATIONS

Net Interest Income

The following table shows, for the periods indicated, the principal components of the Issuer's net interest income:

	Year ended December 31,			Percentage Change	
	2014	2015	2016	2015/ 2014	2016/ 2015
	(in billions of Won, except percentages)			(%)	
Interest income					
Due from financial institutions[1]	143	112	72	(21.7%)	(35.7%)
Loans	8,638	7,497	7,143	(13.2)	(4.7)
Financial investments (debt securities)[2]	922	779	679	(15.5)	(12.8)
Total interest income	9,703	8,388	7,894	(13.6)	(5.9)
Interest expense					
Deposits	3,842	3,030	2,455	(21.1)	(19.0)
Debts	294	228	214	(22.4)	(6.1)
Debentures	594	419	397	(29.5)	(5.3)
Total interest expense	4,731	3,677	3,065	(22.3)	(16.6)
Net interest income	4,971	4,712	4,829	(5.2)	2.5
Net interest margin[3]	2.05%	1.86%	1.81%		

Notes:
(1) Consists of cash and interest earning deposits in other banks.
(2) Consists of debt securities in the Issuer's available-for-sale and held-to-maturity financial asset portfolios.
(3) The ratio of net interest income to average interest earning assets.

Comparison of 2016 to 2015

Interest income

Interest income decreased 5.9% from ₩8,388 billion in 2015 to ₩7,894 billion in 2016, primarily as a result of a 4.7% decrease in interest on loans and, to a lesser extent, a 12.8% decrease in interest on debt securities in the Issuer's financial investments portfolio. The average yields on the Issuer's interest earning assets decreased by 35 basis points from 3.31% in 2015 to 2.96% in 2016, which reflected a decrease in the general level of interest rates in Korea in 2016 compared to 2015. The effect of this decrease was partially offset by a 5.2% increase in the average volume of the Issuer's interest earning assets from ₩253,657 billion in 2015 to ₩266,927 billion in 2016, principally due to growth in the Issuer's loan portfolio.

The 4.7% decrease in interest on loans from ₩7,497 billion in 2015 to ₩7,143 billion in 2016 was primarily the result of:

- a 38 basis point decrease in the average yields on corporate loans from 3.36% in 2015 to 2.98% in 2016, which was partially offset by a 5.5% increase in the average volume of such loans from ₩103,647 billion in 2015 to ₩109,338 billion in 2016;
- a 24 basis point decrease in the average yields on home equity loans from 3.11% in 2015 to 2.87% in 2016, which was partially offset by a 1.3% increase in the average volume of such loans from ₩33,503 billion in 2015 to ₩33,955 billion in 2016;

- a 29 basis point decrease in the average yields on mortgage loans from 3.01% in 2015 to 2.72% in 2016, which was partially offset by a 7.9% increase in the average volume of such loans from ₩51,386 billion in 2015 to ₩55,437 billion in 2016; and
- a 60 basis point decrease in the average yields on other consumer loans from 4.91% in 2015 to 4.31% in 2016, which was partially offset by an 11.6% increase in the average volume of such loans from ₩27,571 billion in 2015 to ₩30,774 billion in 2016.

The average yields on corporate loans, home equity loans, mortgage loans and other consumer loans decreased mainly as a result of the decrease in the general level of interest rates in Korea applicable to such loans from 2015 to 2016. The increase in the average volume of corporate loans mainly reflected the Issuer's increased marketing efforts as well as increased demand for such loans in Korea. The increase in the average volume of home equity and mortgage loans was mainly due to increased demand for such loans in Korea, following initiatives by the Government in 2015 to revive the housing market in Korea by loosening regulations on mortgage and home equity lending. The increase in the average volume of other consumer loans primarily reflected higher demand for such loans in Korea.

Overall, the average yields on the Issuer's loans decreased by 35 basis points from 3.42% in 2015 to 3.07% in 2016, while the average volume of the Issuer's loans increased 6.2% from ₩218,901 billion in 2015 to ₩232,515 billion in 2016.

Debt securities in the Issuer's financial investments portfolio consist of available-for-sale debt securities and held-to-maturity debt securities, including debt securities issued by government-owned or –controlled enterprises or financial institutions and debt securities issued by Korean banks and other financial institutions. The 12.8% decrease in interest on debt securities in the Issuer's financial investments portfolio from ₩779 billion in 2015 to ₩679 billion in 2016 was attributable mainly to a 43 basis point decrease in average yields on such debt securities from 2.82% in 2015 to 2.39% in 2016, which was offset in part by a 2.9% increase in the average volume of such debt securities from ₩27,632 billion in 2015 to ₩28,436 billion in 2016. The decrease in average yields on such debt securities was primarily due to a decrease in the general level of interest rates in Korea for debt securities from 2015 to 2016. The increase in the average volume of such debt securities mainly reflected an increase in the Issuer's purchases of debt securities issued by government-owned or -controlled enterprises and financial institutions.

Interest expense

Interest expense decreased 16.6% from ₩3,677 billion in 2015 to ₩3,065 billion in 2016 primarily due to a 19.0% decrease in interest expense on deposits and, to a lesser extent, a 5.3% decrease in interest expense on debentures. The average cost of the Issuer's interest bearing liabilities decreased by 33 basis points from 1.51% in 2015 to 1.18% in 2016, which was driven mainly by the lower interest rate environment in Korea in 2016. The effect of this decrease was offset in part by a 6.6% increase in the average volume of the Issuer's interest bearing liabilities from ₩243,964 billion in 2015 to ₩260,141 billion in 2016, which mainly reflected an increase in the average volume of demand deposits.

The 19.0% decrease in interest expense on deposits from ₩3,030 billion in 2015 to ₩2,455 billion in 2016 was primarily due to a 47 basis point decrease in the average cost of time deposits from 2.16% in 2015 to 1.69% in 2016, which was offset in part by a 0.7% increase in the average volume of such deposits from ₩123,845 billion in 2015 to ₩124,741 billion in 2016. The decrease in the average cost of time deposits mainly reflected a decrease in the general level of interest rates in Korea from 2015 to 2016. The increase in the average volume of time deposits was principally due to an increase in time deposits for retail customers. Overall, the average cost of the Issuer's deposits decreased by 35 basis points from 1.44% in 2015 to 1.09% in 2016, while the average volume of the Issuer's deposits increased 7.3% from ₩210,209 billion in 2015 to ₩225,617 billion in 2016.

The 5.3% decrease in interest expense on debentures from ₩419 billion in 2015 to ₩397 billion in 2016 was mainly due to a 28 basis point decrease in the average cost of debentures from 2.74% in 2015 to 2.46% in 2016, which was offset in part by a 5.2% increase in the average volume of debentures from ₩15,318 billion in 2015 to ₩16,117 billion in 2016. The decrease in the average cost of debentures primarily reflected the general decrease in market interest rates in Korea in 2016. The increase in the average volume of debentures was principally due to increased use of long-term debentures by the Issuer to meet its funding needs.

Net interest margin

Net interest margin represents the ratio of net interest income to average interest earning assets. The Issuer's overall net interest margin decreased from 1.86% in 2015 to 1.81% in 2016, as a 2.5% increase in the Issuer's net interest income from ₩4,712 billion in 2015 to ₩4,829 billion in 2016 was outpaced by a 5.2% increase in the average volume of the Issuer's interest earning assets from ₩253,657 billion in 2015 to ₩266,927 billion in 2016. The growth in the average volume of the Issuer's interest earning assets was outpaced by a 6.6% increase in the average volume of the Issuer's interest bearing liabilities from ₩243,964 billion in 2015 to ₩260,141 billion in 2016, while the decrease in interest income was outpaced by a decrease in interest expense, resulting in an increase in net interest income. The Issuer's net interest spread, which represents the difference between the average yield on the Issuer's interest earning assets and the average cost of the Issuer's interest bearing liabilities, declined from 1.80% in 2015 to 1.78% in 2016. The decline in the Issuer's net interest spread reflected a larger decrease in the average yield of the Issuer's interest earning assets, relative to the decrease in the average cost of the Issuer's interest bearing liabilities, primarily due to the earlier adjustment of interest rates on interest earning assets compared to interest rates on interest bearing liabilities in the context of the lower interest rate environment in 2016.

Comparison of 2015 to 2014

Interest income

Interest income decreased 13.6% from ₩9,703 billion in 2014 to ₩8,388 billion in 2015, primarily as a result of a 13.2% decrease in interest on loans and, to a lesser extent, a 15.5% decrease in interest on debt securities in the Issuer's financial investments portfolio. The average yields on the Issuer's interest earning assets decreased by 69 basis points from 4.00% in 2014 to 3.31% in 2015, which reflected a decrease in the general level of interest rates in Korea in 2015 compared to 2014. The effect of this decrease was partially offset by a 4.6% increase in the average volume of the Issuer's interest earning assets from ₩242,509 billion in 2014 to ₩253,657 billion in 2015, principally due to growth in the Issuer's loan portfolio.

The 13.2% decrease in interest on loans from ₩8,638 billion in 2014 to ₩7,497 billion in 2015 was primarily the result of:

- a 68 basis point decrease in the average yields on corporate loans from 4.04% in 2014 to 3.36% in 2015, which was partially offset by a 3.4% increase in the average volume of such loans from ₩100,194 billion in 2014 to ₩103,647 billion in 2015;
- a 94 basis point decrease in the average yields on other consumer loans from 5.85% in 2014 to 4.91% in 2015, which was partially offset by a 2.5% increase in the average volume of such loans from ₩26,890 billion in 2014 to ₩27,571 billion in 2015;
- a 59 basis point decrease in the average yields on mortgage loans from 3.60% in 2014 to 3.01% in 2015, which was partially offset by a 7.1% increase in the average volume of such loans from ₩47,992 billion in 2014 to ₩51,386 billion in 2015; and
- a 67 basis point decrease in the average yields on home equity loans from 3.78% in 2014 to 3.11% in 2015, which was partially offset by a 4.6% increase in the average volume of such loans from ₩32,030 billion in 2014 to ₩33,503 billion in 2015.

The average yields on corporate loans, other consumer loans, mortgage loans and home equity loans decreased mainly as a result of the decrease in the general level of interest rates in Korea applicable to such loans from 2014 to 2015. The increase in the average volume of corporate loans mainly reflected the Issuer's increased marketing efforts as well as increased demand for such loans in Korea. The increase in the average volume of other consumer loans primarily reflected higher demand for such loans in Korea. The increase in the average volume of mortgage loans was mainly due to increased demand for such loans in Korea, following initiatives by the Government to revive the housing market in Korea by loosening regulations on mortgage lending in 2014. The increase in the average volume of home equity loans was principally due to increased demand for such loans in Korea, following the loosening of the maximum loan-to-value ratios, to which the Issuer's home equity loans are subject, by the Government in 2014.

Overall, the average yields on the Issuer's loans decreased by 70 basis points from 4.12% in 2014 to 3.42% in 2015, while the average volume of the Issuer's loans increased 4.4% from ₩209,737 billion in 2014 to ₩218,901 billion in 2015.

The 15.5% decrease in interest on debt securities in the Issuer's financial investments portfolio from ₩922 billion in 2014 to ₩779 billion in 2015 was attributable mainly to a 66 basis point decrease in average yields on such debt securities from 3.48% in 2014 to 2.82% in 2015, which was offset in part by a 4.3% increase in the average volume of such debt securities from ₩26,486 billion in 2014 to ₩27,632 billion in 2015. The decrease in average yields on such debt securities was primarily due to a decrease in the general level of interest rates in Korea for debt securities from 2014 to 2015. The increase in the average volume of such debt securities mainly reflected an increase in the Issuer's purchases of debt securities issued by Korean banks and other financial institutions.

Interest expense

Interest expense decreased 22.3% from ₩4,731 billion in 2014 to ₩3,677 billion in 2015 primarily due to a 21.1% decrease in interest expense on deposits and, to a lesser extent, a 29.5% decrease in interest expense on debentures. The average cost of the Issuer's interest bearing liabilities decreased by 53 basis points from 2.04% in 2014 to 1.51% in 2015, which was driven mainly by the lower interest rate environment in Korea in 2015. The effect of this decrease was offset in part by a 4.9% increase in the average volume of the Issuer's interest bearing liabilities from ₩232,476 billion in 2014 to ₩243,964 billion in 2015, which mainly reflected an increase in the average volume of demand deposits.

The 21.1% decrease in interest expense on deposits from ₩3,842 billion in 2014 to ₩3,030 billion in 2015 was primarily due to a 54 basis point decrease in the average cost of time deposits from 2.70% in 2014 to 2.16% in 2015, which was enhanced by a 4.9% decrease in the average volume of such deposits from ₩130,177 billion in 2014 to ₩123,845 billion in 2015. The decrease in the average cost of time deposits mainly reflected a decrease in the general level of interest rates in Korea from 2014 to 2015. The decrease in the average volume of time deposits was principally due to a decrease in time deposits for corporate customers. Overall, the average cost of the Issuer's deposits decreased by 49 basis points from 1.93% in 2014 to 1.44% in 2015, while the average volume of the Issuer's deposits increased 5.4% from ₩199,467 billion in 2014 to ₩210,209 billion in 2015.

The 29.5% decrease in interest expense on debentures from ₩594 billion in 2014 to ₩419 billion in 2015 was mainly due to a 118 basis point decrease in the average cost of debentures from 3.92% in 2014 to 2.74% in 2015. The decrease in the average cost of debentures primarily reflected the general decrease in market interest rates in Korea, including for long-term debentures, in 2015.

Net interest margin

The Issuer's overall net interest margin decreased from 2.05% in 2014 to 1.86% in 2015, as a 5.2% decrease in the Issuer's net interest income from ₩4,971 billion in 2014 to ₩4,712 billion in 2015 was enhanced by a 4.6% increase in the average volume of the Issuer's interest earning assets from ₩242,509 billion in 2014 to ₩253,657 billion in 2015. The growth in the average volume of the Issuer's interest earning assets was outpaced by a 4.9% increase in the average volume of the Issuer's interest bearing liabilities from ₩232,476 billion in 2014 to ₩243,964 billion in 2015, while the decrease in interest income outpaced a decrease in interest expense, resulting in a decrease in net interest income. The Issuer's net interest spread declined from 1.96% in 2014 to 1.80% in 2015. The decline in the Issuer's net interest spread reflected a larger decrease in the average yield of the Issuer's interest earning assets, relative to the decrease in the average cost of the Issuer's interest bearing liabilities, primarily due to the earlier adjustment of interest rates on interest earning assets compared to interest rates on interest bearing liabilities in the context of the lower interest rate environment, as well as the continuing rate-based competition in the Korean banking industry for the marketing of both loan and deposit products.

Provision for Credit Losses

Provision for credit losses includes provision for loan losses, provision for unused loan commitments, provision for acceptances and guarantees, provision for financial guarantee contracts and provision for other financial assets, in each case net of reversal of provisions. For a discussion of the Issuer's loan loss provisioning policy, see "*Assets and Liabilities—Loan Portfolio—Provisioning Policy.*"

In accordance with the guidelines of the FSS, if the Issuer's provision for loan losses is deemed insufficient for regulatory purposes, the Issuer compensates for the difference by recording a regulatory reserve for credit losses, which is segregated within retained earnings. See "*Assets and Liabilities—Loan Portfolio—Regulatory Reserve for Credit Losses*" and Note 25.4 of the notes to the Issuer's consolidated financial statements included elsewhere in this Offering Circular.

Comparison of 2016 to 2015

The Issuer's provision for credit losses decreased 65.8% from ₩742 billion in 2015 to ₩254 billion in 2016, primarily due to a decrease in provision for loan losses in respect of the Issuer's corporate loans. Such decrease resulted mainly from an improvement in the overall asset quality of the Issuer's corporate loan portfolio, including a decrease in impaired corporate loans.

The Issuer's write-offs of retail and corporate loans, net of recoveries, decreased 2.9% from ₩646 billion in 2015 to ₩627 billion in 2016, primarily due to a decrease in write-offs of retail loans and an increase in recoveries from written-off corporate loans.

The Issuer's reversal of provision for acceptances and guarantees and unused loan commitments decreased 37.0% from ₩54 billion in 2015 to ₩34 billion in 2016, due mainly to a decrease in reversal of provision for acceptances and guarantees issued on behalf of shipbuilding and shipping companies.

Comparison of 2015 to 2014

The Issuer's provision for credit losses decreased 16.4% from ₩888 billion in 2014 to ₩742 billion in 2015, primarily due to a decrease in provision for loan losses in respect of the Issuer's retail loans. Such decrease resulted mainly from an improvement in the overall asset quality of the Issuer's retail loan portfolio.

The Issuer's write-offs of retail and corporate loans, net of recoveries, decreased 46.1% from ₩1,200 billion in 2014 to ₩646 billion in 2015, primarily due to decreases in write-offs of corporate and retail loans.

The Issuer's reversal of provision for acceptances and guarantees and unused loan commitments increased more than twofold from ₩20 billion in 2014 to ₩54 billion in 2015, due mainly to an increase in reversal of provision for acceptances and guarantees issued on behalf of shipbuilding companies.

Net Fee and Commission Income

The following table shows, for the periods indicated, the components of the Issuer's net fee and commission income:

	Year ended December 31,			Percentage Change	
	2014	2015	2016	2015/ 2014	2016/ 2015
	(in billions of Won, except percentages)			(%)	
Fee and commission income	1,271	1,372	1,310	7.9%	(4.5%)
Fee and commission expense	(193)	(216)	(223)	11.9	3.2
Net fee and commission income	1,078	1,156	1,088	7.2	(5.9)

Comparison of 2016 to 2015

The Issuer's net fee and commission income decreased 5.9% from ₩1,156 billion in 2015 to ₩1,088 billion in 2016, as a 4.5% decrease in fee and commission income from ₩1,372 billion in 2015 to ₩1,310 billion in 2016 was enhanced by a 3.2% increase in fee and commission expense from ₩216 billion in 2015 to ₩223 billion in 2016.

The 4.5% decrease in fee and commission income was mainly the result of decreases in trust and other fiduciary fees and agent activity fees. Trust and other fiduciary fees decreased 24.5% from ₩241 billion in 2015 to ₩182 billion in 2016 primarily due to a decrease in sales of equity-linked savings products. Agent activity fees decreased 4.7% from ₩406 billion in 2015 to ₩387 billion in 2016 principally as a result of a decrease in fees related to bancassurance activities.

The 3.2% increase in fee and commission expense was attributable primarily to increases in foreign currency related fees, lending activity fees and other fee and commission expense. Foreign currency related fees increased 33.3% from ₩12 billion in 2015 to ₩16 billion in 2016 and lending activity fees increased 14.3% from ₩21 billion in 2015 to ₩24 billion in 2016, while other fee and commission expense increased 4.1% from ₩73 billion in 2015 to ₩76 billion in 2016.

Comparison of 2015 to 2014

The Issuer's net fee and commission income increased 7.2% from ₩1,078 billion in 2014 to ₩1,156 billion in 2015, as a 7.9% increase in fee and commission income from ₩1,271 billion in 2014 to ₩1,372 billion in 2015 outpaced an 11.9% increase in fee and commission expense from ₩193 billion in 2014 to ₩216 billion in 2015.

The 7.9% increase in fee and commission income was mainly the result of increases in trust and other fiduciary fees and agent activity fees. Trust and other fiduciary fees increased 18.7% from ₩203 billion in 2014 to ₩241 billion in 2015 primarily due to an increase in sales of equity-linked securities. Agent activity fees increased 9.1% from ₩372 billion in 2014 to ₩406 billion in 2015 principally as a result of an increase in fees related to bancassurance activities.

The 11.9% increase in fee and commission expense was attributable primarily to increases in outsourcing related fees and other fee and commission expense. Outsourcing related fees increased 10.7% from ₩56 billion in 2014 to ₩62 billion in 2015, while other fee and commission expense increased 5.8% from ₩69 billion in 2014 to ₩73 billion in 2015.

Net Gain on Financial Assets and Liabilities at Fair Value through Profit or Loss

The following table shows, for the periods indicated, the components of the Issuer's net gain on financial assets and liabilities at fair value through profit or loss:

	Year ended December 31,			Percentage Change	
	2014	2015	2016	2015/2014	2016/2015
	(in billions of Won, except percentages)			(%)	
Net gain on financial assets held-for-trading	257	192	137	(25.3%)	(28.6%)
Net gain on derivatives held-for-trading	99	98	52	(1.0)	(46.9)
Net loss on financial liabilities held-for-trading	(0)	—	(2)	N/M(1)	N/M(1)
Net gain (loss) on financial assets designated at fair value through profit or loss	—	(3)	10	N/M(1)	(433.3)
Net gain on financial assets and liabilities at fair value through profit or loss	356	287	197	(19.4)	(31.4)

Note:
(1) "N/M" means not meaningful.

Comparison of 2016 to 2015

The Issuer's net gain on financial assets and liabilities at fair value through profit or loss decreased 31.4% from ₩287 billion in 2015 to ₩197 billion in 2016 primarily as a result of a 28.6% decrease in net gain on financial assets held-for-trading from ₩192 billion in 2015 to ₩137 billion in 2016, as well as a 46.9% decrease in net gain on derivatives held-for-trading from ₩98 billion in 2015 to ₩52 billion in 2016. The decrease in net gain on financial assets held-for-trading was principally due to a 29.5% decrease in net gain on debt securities held-for-trading from ₩190 billion in 2015 to ₩134 billion in 2016. The decrease in net gain on derivatives held-for-trading mainly reflected an 89.9% decrease in net gains on currency derivatives from ₩109 billion in 2015 to ₩11 billion in 2016.

Comparison of 2015 to 2014

The Issuer's net gain on financial assets and liabilities at fair value through profit or loss decreased 19.4% from ₩356 billion in 2014 to ₩287 billion in 2015 primarily as a result of a 25.3% decrease in net gain on financial assets held-for-trading from ₩257 billion in 2014 to ₩192 billion in 2015. The decrease in net gain on financial assets held-for-trading was principally due to a 31.9% decrease in net gain on debt securities held-for-trading from ₩279 billion in 2014 to ₩190 billion in 2015.

For further information regarding the Issuer's net gain on financial assets and liabilities at fair value through profit or loss, see Note 28 of the notes to the Issuer's consolidated financial statements included elsewhere in this Offering Circular.

General and Administrative Expenses

The following table shows, for the periods indicated, the components of the Issuer's general and administrative expenses:

	Year ended December 31,			Percentage Change	
	2014	2015	2016	2015/2014	2016/2015
	(in billions of Won, except percentages)			(%)	
Employee benefits	2,222	2,710	3,175	22.0%	17.2%
Depreciation and amortisation	212	204	220	(3.8)	7.8
Other general and administrative expenses	939	897	874	(4.5)	(2.6)
General and administrative expenses	3,373	3,812	4,269	13.0	12.0

Comparison of 2016 to 2015

The Issuer's general and administrative expenses increased 12.0% from ₩3,812 billion in 2015 to ₩4,269 billion in 2016, primarily as a result of a 17.2% increase in employee benefits from ₩2,710 billion in 2015 to ₩3,175 billion in 2016, which was offset in part by a 2.6% decrease in other general and administrative expenses from ₩897 billion in 2015 to ₩874 billion in 2016. The increase in employee benefits was principally due to a 121.3% increase in termination benefits from ₩390 billion in 2015 to ₩863 billion in 2016, which resulted mainly from a significant increase in the number of employees participating in the voluntary early retirement programme implemented by the Issuer. The decrease in other general and administrative expenses was mainly attributable to a 16.3% decrease in tax and dues from ₩98 billion in 2015 to ₩82 billion in 2016, which principally reflected a decrease in profits subject to education tax.

Comparison of 2015 to 2014

The Issuer's general and administrative expenses increased 13.0% from ₩3,373 billion in 2014 to ₩3,812 billion in 2015, primarily as a result of a 22.0% increase in employee benefits from ₩2,222 billion in 2014 to ₩2,710 billion in 2015, which was offset in part by a 4.5% decrease in other general and administrative expenses from ₩939 billion in 2014 to ₩897 billion in 2015. The increase in employee benefits was principally due to a significant increase in termination benefits from less than ₩1 billion in 2014 to ₩390 billion in 2015, which resulted mainly from a voluntary early retirement programme implemented by the Issuer in 2015. The decrease in other general and administrative expenses was mainly attributable to a 9.5% decrease in rental expense from ₩263 billion in 2014 to ₩238 billion in 2015, which principally reflected the closure of a number of branches of the Issuer in 2015.

Net Other Operating Expenses

The following table shows, for the periods indicated, the components of the Issuer's net other operating expenses:

	Year ended December 31,			Percentage Change	
	2014	2015	2016	2015/2014	2016/2015
	(in billions of Won, except percentages)			(%)	
Other operating income	1,754	3,088	3,749	76.1%	21.4%
Other operating expenses	(2,522)	(3,510)	(4,150)	39.2	18.2
Net other operating expenses	(769)	(422)	(401)	(45.1)	(5.0)

Comparison of 2016 to 2015

The Issuer's net other operating expenses decreased 5.0% from ₩422 billion in 2015 to ₩401 billion in 2016, as a 21.4% increase in other operating income from ₩3,088 billion in 2015 to ₩3,749 billion in 2016 outpaced an 18.2% increase in other operating expenses from ₩3,510 billion in 2015 to ₩4,150 billion in 2016.

Other operating income includes principally gain on foreign exchange transactions, gain on sale of available-for-sale financial assets, dividend income and other income. The 21.4% increase in other operating income was attributable mainly to a 37.4% increase in gain on foreign exchange transactions from ₩2,423 billion in 2015 to ₩3,329 billion in 2016, which was offset in part by a 57.5% decrease in gain on sale of available-for-sale financial assets from ₩398 billion in 2015 to ₩169 billion in 2016. The increase in gain on foreign exchange transactions, which was mainly the result of increased exchange rate volatility, was offset in part by a corresponding increase in loss on foreign exchange transactions, which is recorded as part of other operating expenses. On a net basis, the Issuer's net gain on foreign exchange transactions increased more than fivefold from ₩23 billion in 2015 to ₩117 billion in 2016. The decrease in gain on sale of available-for-sale financial assets was mainly due to substantial gains realised on sales of equity securities in 2015, which were not repeated in 2016.

Other operating expenses include principally loss on foreign exchange transactions, impairment on available-for-sale financial assets, loss on sale of available-for-sale financial assets and other expenses. The 18.2% increase in other operating expenses was primarily the result of a 33.9% increase in loss on foreign exchange transactions from ₩2,399 billion in 2015 to ₩3,212 billion in 2016. The increase in loss on foreign exchange transactions, which was principally due to an increase in foreign exchange rate volatility, was more than offset by an increase in gain on foreign exchange transactions, which is recorded as part of other operating income as discussed above.

Comparison of 2015 to 2014

The Issuer's net other operating expenses decreased 45.1% from ₩769 billion in 2014 to ₩422 billion in 2015, as a 76.1% increase in other operating income from ₩1,754 billion in 2014 to ₩3,088 billion in 2015 outpaced a 39.2% increase in other operating expenses from ₩2,522 billion in 2014 to ₩3,510 billion in 2015.

The 76.1% increase in other operating income was attributable mainly to a 65.1% increase in gain on foreign exchange transactions from ₩1,468 billion in 2014 to ₩2,423 billion in 2015, as well as a more than sevenfold increase in gain on sale of available-for-sale financial assets from ₩55 billion in 2014 to ₩398 billion in 2015. The increase in gain on foreign exchange transactions, which was mainly the result of increased exchange rate volatility, was offset in part by a corresponding increase in loss on foreign exchange transactions, which is recorded as part of other operating expenses. On a net basis, the Issuer's net gain on foreign exchange transactions increased 43.8% from ₩16 billion in 2014 to ₩23 billion in 2015. The increase in gain on sale of available-for-sale financial assets was mainly due to gains realised in 2015 from sales of shares of Korea Housing & Urban Guarantee Corporation, SK Holdings Co., Ltd. and Kumho Industrial Co., Ltd., as well as sales of debt securities, held by the Issuer.

The 39.2% increase in other operating expenses was primarily the result of a 65.2% increase in loss on foreign exchange transactions from ₩1,452 billion in 2014 to ₩2,399 billion in 2015. The increase in loss on foreign exchange transactions, which was principally due to an increase in the volume of the Issuer's foreign currency transactions, was more than offset by an increase in gain on foreign exchange transactions, which is recorded as part of other operating income as discussed above.

Net Other Non-operating Income (Expenses)

The following table shows, for the periods indicated, the components of the Issuer's net other non-operating income (expenses):

	Year ended December 31,			Percentage Change	
	2014	2015	2016	2015/2014	2016/2015
	(in billions of Won, except percentages)			(%)	
Non-operating income	73	288	111	294.5%	(61.5%)
Non-operating expenses	(107)	(95)	(61)	(11.2)	(35.8)
Net other non-operating income (expenses)	(34)	193	49	N/M(1)	(74.6)

Note:
(1) "N/M" means not meaningful.

Comparison of 2016 to 2015

The Issuer's net other non-operating income decreased 74.6% from ₩193 billion in 2015 to ₩49 billion in 2016, as a 61.5% decrease in non-operating income from ₩288 billion in 2015 to ₩111 billion in 2016 outpaced a 35.8% decrease in non-operating expenses from ₩95 billion in 2015 to ₩61 billion in 2016.

The 61.5% decrease in non-operating income was attributable mainly to a 68.7% decrease in other non-operating income from ₩259 billion in 2015 to ₩81 billion in 2016. Such decrease was primarily due to a decrease in income related to judgments in legal proceedings.

The 35.8% decrease in non-operating expenses resulted principally from a 49.0% decrease in other non-operating expenses from ₩51 billion in 2015 to ₩26 billion in 2016. Such decrease mainly reflected a decrease in provisions in respect of legal proceedings.

Comparison of 2015 to 2014

The Issuer's net other non-operating income (expenses) changed from net expenses of ₩34 billion in 2014 to net income of ₩193 billion in 2015, principally as a result of a more than threefold increase in non-operating income from ₩73 billion in 2014 to ₩288 billion in 2015. Such increase was attributable mainly to a more than fourfold increase in other non-operating income from ₩58 billion in 2014 to ₩259 billion in 2015, which was primarily due to an increase in income related to judgments in legal proceedings.

Income Tax Expense

The Issuer's income tax expense is calculated by adding or subtracting changes in deferred income tax liabilities and assets to income tax amounts payable for the period. Deferred income tax assets are recognised for deductible temporary differences, unused tax losses and unused tax credits, while deferred income tax liabilities are recognised for taxable temporary differences. Temporary differences are those between the carrying values of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred income tax assets, including unused tax losses and credits, are recognised only to the extent it is probable that sufficient taxable profit will be available against which such deferred income tax assets can be utilised.

Effective January 1, 2015, pursuant to an amendment to the Corporate Income Tax Law, large corporations with net equity in excess of ₩50 billion, including the Issuer, became subject to a 10% additional levy on corporate income if a certain portion of taxable income is not used for investments, wage increases or dividend payments. See Note 2.4.1 of the notes to the Issuer's consolidated financial statements included elsewhere in this Offering Circular.

Comparison of 2016 to 2015

Income tax expense increased 6.6% from ₩274 billion in 2015 to ₩292 billion in 2016 despite a 9.1% decrease in profit before income tax expense, primarily due to a 137.0% increase in current tax expense from ₩208 billion in 2015 to ₩493 billion in 2016, which was mainly attributable to a decrease in non-taxable income. Such increase in current tax expense was offset in part by the effect of changes in deferred income tax assets and liabilities from an expense of ₩52 billion in 2015 to a benefit of ₩205 billion in 2016. The statutory tax rate was 24.2% in 2015 and 2016. The Issuer's effective tax rate was 23.2% in 2016 compared to 19.8% in 2015.

Comparison of 2015 to 2014

Income tax expense decreased 17.2% from ₩331 billion in 2014 to ₩274 billion in 2015 despite an increase in profit before income tax expense, primarily due to a 50.0% decrease in current tax expense from ₩416 billion in 2014 to ₩208 billion in 2015, which was attributable mainly to an increase in non-taxable income. Such decrease in current tax expense was offset in part by a change in income tax expense (benefit) recognised directly in equity relating to the value of available-for-sale financial assets from an income tax benefit of ₩70 billion in 2014 to an income tax expense of ₩25 billion in 2015. The statutory tax rate was 24.2% in 2014 and 2015. The Issuer's effective tax rate was 19.8% in 2015 compared to 24.3% in 2014.

Profit for the Year

As a result of the above, the Issuer's profit for the year was ₩964 billion in 2016, compared to ₩1,107 billion in 2015 and ₩1,029 billion in 2014.

FINANCIAL CONDITION

Assets

The following table sets forth, as of the dates indicated, the principal components of the Issuer's assets:

	As of December 31,			Percentage Change	
	2014	2015	2016	2015/ 2014	2016/ 2015
	(in billions of Won, except percentages)			(%)	
Cash and due from financial institutions	13,974	14,563	14,682	4.2%	0.8%
Financial assets at fair value through profit or loss	7,520	6,488	7,956	(13.7)	22.6
Derivative financial assets	1,910	2,186	2,796	14.5	27.9
Loans	211,526	222,738	236,551	5.3	6.2
Financial investments	29,259	32,912	35,732	12.5	8.6
Property and equipment	2,888	2,909	3,117	0.7	7.2
Other assets[(1)]	8,377	8,482	6,232	1.3	(26.5)
Total assets	275,454	290,278	307,066	5.4	5.8

Note:

(1) Includes investment in associates, investment property, intangible assets, current income tax assets, deferred income tax assets, assets held for sale and other assets.

For further information on the Issuer's assets, see "Assets and Liabilities."

Comparison of December 31, 2016 to December 31, 2015

The Issuer's total assets increased 5.8% from ₩290,278 billion as of December 31, 2015 to ₩307,066 billion as of December 31, 2016, principally due to a 6.2% increase in loans from ₩222,738 billion as of December 31, 2015 to ₩236,551 billion as of December 31, 2016, as well as an 8.6% increase in financial investments from ₩32,912 billion as of December 31, 2015 to ₩35,732 billion as of December 31, 2016. The effect of these increases was offset in part by a 26.5% decrease in other assets, including investment in associates, investment property and other assets, from ₩8,482 billion as of December 31, 2015 to ₩6,232 billion as of December 31, 2016.

Comparison of December 31, 2015 to December 31, 2014

The Issuer's total assets increased 5.4% from ₩275,454 billion as of December 31, 2014 to ₩290,278 billion as of December 31, 2015, principally due to a 5.3% increase in loans from ₩211,526 billion as of December 31, 2014 to ₩222,738 billion as of December 31, 2015, as well as a 12.5% increase in financial investments from ₩29,259 billion as of December 31, 2014 to ₩32,912 billion as of December 31, 2015. The effect of these increases was offset in part by a 13.7% decrease in financial assets at fair value through profit or loss from ₩7,520 billion as of December 31, 2014 to ₩6,488 billion as of December 31, 2015.

Liabilities and Equity

The following table sets forth, as of the dates indicated, the principal components of the Issuer's liabilities and the Issuer's equity:

	As of December 31,			Percentage Change	
	2014	2015	2016	2015/ 2014	2016/ 2015
	(in billions of Won, except percentages)			(%)	
Liabilities:					
Financial liabilities at fair value through profit or loss	52	69	73	32.7%	5.8%
Derivative financial liabilities	1,759	2,139	2,834	21.6	32.5
Deposits	211,611	224,334	235,736	6.0	5.1
Debts	14,297	14,292	15,934	0.0	11.5
Debentures	15,250	15,949	14,960	4.6	(6.2)
Provisions	483	450	425	(6.8)	(5.6)
Other liabilities(1)	10,059	10,298	13,779	2.4	33.8
Total liabilities	253,513	267,531	283,741	5.5	6.1
Equity:					
Capital stock	2,022	2,022	2,022	0.0	0.0
Capital surplus	5,220	5,220	5,220	0.0	0.0
Accumulated other comprehensive income	571	501	495	(12.3)	(1.2)
Retained earnings	14,128	15,005	15,589	6.2	3.9
Equity attributable to shareholders of the parent entity	21,940	22,747	23,325	3.7	2.5
Non-controlling interest equity	—	—	—	—	—
Total equity	21,940	22,747	23,325	3.7	2.5
Total liabilities and equity	275,454	290,278	307,066	5.4	5.8

Note:

(1) Includes net defined benefit liabilities, current income tax liabilities, deferred income tax liabilities and other liabilities.

Comparison of December 31, 2016 to December 31, 2015

The Issuer's total liabilities increased 6.1% from ₩267,531 billion as of December 31, 2015 to ₩283,741 billion as of December 31, 2016, principally due to a 5.1% increase in deposits from ₩224,334 billion as of December 31, 2015 to ₩235,736 billion as of December 31, 2016, mainly as a result of an increase in demand deposits.

The Issuer's total equity increased 2.5% from ₩22,747 billion as of December 31, 2015 to ₩23,325 billion as of December 31, 2016. This increase resulted principally from an increase in the Issuer's retained earnings, which was attributable to the profit the Issuer generated in 2016.

Comparison of December 31, 2015 to December 31, 2014

The Issuer's total liabilities increased 5.5% from ₩253,513 billion as of December 31, 2014 to ₩267,531 billion as of December 31, 2015, principally due to a 6.0% increase in deposits from ₩211,611 billion as of December 31, 2014 to ₩224,334 billion as of December 31, 2015, mainly as a result of an increase in demand deposits.

The Issuer's total equity increased 3.7% from ₩21,940 billion as of December 31, 2014 to ₩22,747 billion as of December 31, 2015. This increase resulted principally from an increase in the Issuer's retained earnings, which was attributable to the profit the Issuer generated in 2015.

Liquidity

The Issuer's primary source of funding has historically been and continues to be deposits. Deposits amounted to ₩211,611 billion, ₩224,334 billion and ₩235,736 billion as of December 31, 2014, 2015 and 2016, which represented approximately 87.7%, 88.1% and 88.4% of the Issuer's total funding, respectively. The Issuer has been able to use customer deposits to finance its operations generally, including meeting a portion of its liquidity requirements. Although the majority of deposits are short-term, it has been the Issuer's experience that the majority of the Issuer's depositors generally roll over their deposits at maturity, thus providing the Issuer with a stable source of funding. However, in the event that a substantial number of the Issuer's depositors do not roll over their deposits or otherwise decide to withdraw their deposited funds, the Issuer would need to place increased reliance on alternative sources of funding, some of which may be more expensive than customer deposits, in order to finance the Issuer's operations. See "*Risk Factors—Risks Relating to Liquidity and Capital Management—The Issuer's funding is highly dependent on short-term deposits, which dependence may adversely affect the Issuer's operations.*" In particular, the Issuer may increase its utilisation of alternative funding sources such as short-term borrowings and cash and cash equivalents (including funds from maturing loans), as well as liquidating the Issuer's positions in financial assets and using the proceeds to fund parts of its operations, as necessary.

The Issuer also obtains funding through debentures and debts to meet its liquidity needs. Debentures represented 6.3%, 6.3% and 5.6% of its total funding as of December 31, 2014, 2015 and 2016, respectively. Debts represented 5.9%, 5.6% and 6.0% of its total funding as of December 31, 2014, 2015 and 2016, respectively. For further information on the Issuer's sources of funding, see "*Assets and Liabilities.*"

The FSC requires each bank in Korea to maintain a liquidity coverage ratio and a foreign currency liquidity ratio. These ratios require the Issuer to keep the ratio of liquid assets to liquid liabilities above certain minimum levels. For a description of these requirements, see "*Regulation and Supervision—Legal and Regulatory Framework in Korea—Liquidity.*"

The Issuer is exposed to liquidity risk arising from withdrawals of deposits and maturities of its debentures and debts, as well as the need to fund its lending, trading and investment activities (including its capital expenditures) and the management of its trading positions. The goal of liquidity management is for the Issuer to be able, even under adverse conditions, to meet all of its liability repayments on time and fund all investment opportunities. For an explanation of how the Issuer manages its liquidity risk, see "*Risk Management—Liquidity Risk Management.*"

Commitments and Guarantees

The following table sets forth, on a separate basis, the Issuer's commitments and guarantees as of December 31, 2016. These commitments and guarantees are not included within the Issuer's statements of financial position.

	Payments Due by Period				
	Total	1 Year or Less	1-3 Years	3-5 Years	More Than 5 Years
	(in billions of Won)				
Financial guarantees(1)	4,334	1,392	2,114	747	81
Confirmed acceptances and guarantees	5,260	3,715	1,019	508	18
Commitments	54,590	53,377	655	262	296
Total	64,184	58,484	3,788	1,517	395

Note:

(1) Includes ₩3,448 billion of irrevocable commitments to provide contingent liquidity credit lines to special purpose entities for which the Issuer serves as the administrator.

Capital Adequacy

The Issuer is subject to FSC capital adequacy requirements applicable to Korean banks. The requirements applicable commencing in December 2013 pursuant to amended FSC regulations promulgated in July 2013 were formulated based on Basel III, which was first introduced by the Basel Committee on Banking Supervision, Bank for International Settlements in December 2009. Under the amended FSC regulations, all banks in Korea are required to maintain certain minimum ratios of common equity Tier I capital, total Tier I capital and total Tier I and Tier II capital to risk-weighted assets. See "*Regulation and Supervision—Legal and Regulatory Framework in Korea—Capital Adequacy*."

The following table sets forth a summary of the Issuer's capital and capital adequacy ratios as of December 31, 2014, 2015 and 2016 based on applicable regulatory reporting standards.

	As of December 31,		
	2014	2015	2016
	(in billions of Won, except percentages)		
Tier I capital	19,621	20,332	22,343
Common equity Tier I capital	19,621	20,332	22,343
Tier II capital	3,801	3,354	2,236
Total core and supplementary capital	23,422	23,686	24,579
Risk-weighted assets	146,690	147,973	150,648
Credit risk	132,453	133,389	136,470
Market risk	3,445	4,189	3,884
Operational risk	10,792	10,394	10,295
Total Tier I and Tier II capital adequacy ratio	15.97%	16.01%	16.32%
Tier I capital adequacy ratio	13.38%	13.74%	14.83%
Common equity Tier I capital adequacy ratio	13.38%	13.74%	14.83%
Tier II capital adequacy ratio	2.59%	2.27%	1.49%

Recent Accounting Pronouncements

Korean IFRS 1109 *Financial Instruments*, issued in July 2014, is effective for annual periods beginning on or after January 1, 2018. Korean IFRS 1109 will replace Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*. Korean IFRS 1109 requires all financial assets to be classified and measured on the basis of an entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. A new impairment model, based on expected credit losses, is introduced and any subsequent changes in expected credit losses will be recognised in profit or loss. Also, hedge accounting rules are amended to extend to more hedging relationships and to allow more hedging instruments and hedged items to qualify for hedge accounting. An effective implementation of Korean IFRS 1109 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and system stabilisation. The Issuer is in the process of analysing the financial impact of Korean IFRS 1109 on its consolidated financial statements. For further information regarding Korean IFRS 1109, see Note 2.1 of the notes to the Issuer's consolidated financial statements included elsewhere in this Offering Circular.

BUSINESS

Overview

The Issuer is one of the largest commercial banks in Korea in terms of total assets (including loans). As of December 31, 2016, the Issuer had total assets of ₩307,066 billion and total deposits of ₩235,736 billion.

The Issuer provides credit and related financial services to individuals and SMEs and, to a lesser extent, to large corporate customers. The Issuer also provides a full range of deposit products and related services to both individuals and enterprises of all sizes.

By their nature, the Issuer's core consumer and SME operations place a high premium on customer access and convenience. The Issuer's network of 1,130 branches as of December 31, 2016, one of the most extensive in Korea, provides the Issuer with access to a large, stable and cost-effective funding source, enables the Issuer to provide its customers convenient access and gives the Issuer the ability to provide the customer attention and service essential to conducting its business, particularly in an increasingly competitive environment. The Issuer's branch network is further enhanced by automated banking machines and fixed-line, smartphone and Internet banking. As of December 31, 2016, the Issuer had a customer base of approximately 30.1 million retail customers, which represented over one-half of the Korean population.

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

	As of December 31,					
	2014		2015		2016	
	(in billions of Won, except percentages)					
Retail	112,042	52.7%	115,780	51.6%	123,627	52.2%
Corporate	99,558	46.8	107,365	47.8	111,808	47.2
Foreign	1,146	0.5	1,272	0.6	1,337	0.6
Total loans	212,746	100.0%	224,417	100.0%	236,772	100.0%

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

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

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

The legal name of the Issuer is Kookmin Bank. The Issuer is registered in Korea and incorporated with limited liability under the laws of Korea (registration number: 110111-2365321) and operates pursuant to the Bank Act of 1950, as amended (the **Bank Act**) and the Bank of Korea Act of 1950, as amended (the **Bank of Korea Act**), as well as regulations and supervision of the BOK, the BOK's Monetary Policy Committee (the **MPC**), the FSC and its executive body, the FSS. The Issuer's registered office is located at 84, Namdaemoon-ro, Jung-gu, Seoul 04534, Korea (telephone: + (822) 2073-7114).

Organisational Structure

In September 2008, the Issuer completed a "comprehensive stock transfer" under Article 360-15 of the Korean Commercial Code, whereby KB Financial Group Inc. (**KB Financial Group**) became the holding company of the Issuer and eight additional entities that were originally the Issuer's subsidiaries. See

"*—History and Development—Establishment of KB Financial Group.*" Currently, the Issuer is a wholly-owned subsidiary of KB Financial Group and the Issuer's operating subsidiaries comprise Kookmin Bank Int'l Ltd. (London), Kookmin Bank Cambodia PLC and Kookmin Bank (China) Ltd. Kookmin Bank Hong Kong Ltd., previously one of the Issuer's operating subsidiaries, has converted to a branch as of January 1, 2017. The following tables provide summary information for the Issuer's operating subsidiaries, including their total assets, net income, operating income and shareholder's equity as of and for the year ended December 31, 2016:

	As of December 31, 2016			Year ended December 31, 2016	
Subsidiaries	**Percentage of ownership**	**Total assets**	**Equity**	**Operating revenue**	**Profit (Loss) for the period**
	(in millions of Won, except percentages)				
Kookmin Bank Hong Kong Ltd.	100.0	926,001	165,889	19,105	5,648
Kookmin Bank Int'l Ltd. (London)	100.0	501,788	90,826	13,699	3,982
Kookmin Bank Cambodia PLC	100.0	162,133	62,623	6,858	742
Kookmin Bank (China) Ltd.	100.0	1,838,326	423,264	57,769	5,282

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

- *Kookmin Bank Hong Kong Ltd.* was established in Hong Kong in July 1995 to provide a broad range of corporate banking services.
- *Kookmin Bank Int'l Ltd. (London)* was established in the United Kingdom in November 1991 to provide a broad range of corporate banking services.
- The Issuer acquired a controlling interest in *Kookmin Bank Cambodia PLC* (formerly Khmer Union Bank) in May 2009, to enable the Issuer to provide various banking services in Cambodia.
- *Kookmin Bank (China) Ltd.* was established in China in November 2012 to provide a broad range of corporate banking services.

History and Development

History of the Former Kookmin Bank

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

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

History of Housing & Commercial Bank

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

The Merger of the Former Kookmin Bank and H&CB

Effective November 1, 2001, the former Kookmin Bank and H&CB merged into a new entity named Kookmin Bank. This merger resulted in the Issuer becoming the largest commercial bank in Korea by total assets (including loans), according to the data compiled by the FSS. American depositary shares

(**ADSs**) representing the Issuer's common stock were listed on the New York Stock Exchange on November 1, 2001 and its common stock was listed on the KRX KOSPI Market on November 9, 2001.

The Merger with Kookmin Credit Card

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

Establishment of KB Financial Group

KB Financial Group was established on September 29, 2008 pursuant to a "comprehensive stock transfer" under Article 360-15 of the Korean Commercial Code, whereby holders of the common stock of the Issuer and certain of its subsidiaries transferred all of their shares to KB Financial Group, a new financial holding company, and in return received shares of KB Financial Group's common stock. In the stock transfer, each holder of one share of the Issuer's common stock received one share of KB Financial Group's common stock, par value ₩5,000 per share. Holders of the Issuer's ADSs and global depositary shares, each of which represented one share of the Issuer's common stock, received one of KB Financial Group's ADSs for every ADS or global depositary share they owned. In addition, holders of the common stock of KB Investment & Securities Co., Ltd., KB Asset Management Co., Ltd., KB Real Estate Trust Co., Ltd., KB Investment Co., Ltd., KB Futures Co., Ltd., KB Credit Information Co., Ltd. and KB Data Systems Co., Ltd., all of which were the Issuer's subsidiaries, transferred all of their shares to KB Financial Group and, as consideration for such transferred shares, received shares of KB Financial Group's common stock in accordance with the specified stock transfer ratio applicable to each such subsidiary. Following the completion of the stock transfer, the Issuer and the aforementioned subsidiaries of the Issuer became KB Financial Group's wholly-owned subsidiaries. Following the stock transfer, KB Financial Group's common stock was listed on the KRX KOSPI Market on October 10, 2008 and its ADSs were listed on the New York Stock Exchange on September 29, 2008.

Spin-off of the Credit Card Business

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

Strategy

The Issuer's strategic focus is to become a world-class banking service provider that ranks among the leaders of the financial industry in Asia and globally. The Issuer plans to solidify its market position as Korea's leading bank, enhance its ability to provide comprehensive financial services to its retail and corporate customers and strengthen its overseas operating platform and network. The Issuer believes its strong market position is an important competitive advantage, which will enable the Issuer to compete more effectively based on convenient delivery, product breadth and differentiation, and service quality while focusing on the Issuer's profitability.

The key elements of the Issuer's strategy are as follows:

Identifying, targeting and marketing to attractive customer segments and providing superior customer value and service to such segments

In recent years, rather than focusing on developing products and services to satisfy the overall needs of the general population, the Issuer has increasingly targeted specific market segments that the Issuer expects to generate superior growth and profitability. The Issuer will continue to implement a targeted marketing approach that seeks to identify the most attractive customer segments and to develop strategies to build market share in those segments. In particular, the Issuer intends to increase its "wallet share" of superior existing customers by using its advanced customer relationship management technology to better identify and meet the needs of its most creditworthy and high net worth customers, on whom the Issuer intends to concentrate its marketing efforts. For example, as part of this strategy, the Issuer operates a "priority customer" programme called KB Star Club. The Issuer selects and classifies KB Star Club customers based on their transaction history and provides such customers with preferential treatment in various areas, including interest rates and transaction fees, depending upon how they are classified. The Issuer also provides private banking services, including personal wealth management services through its exclusive brand "Gold & Wise," to increase its share of the priority customer market and in turn increase its profitability and strengthen its position in retail banking.

The Issuer is also focusing on attracting and retaining creditworthy customers by offering more differentiated fee-based products and services that are tailored to meet their specific needs. The development and marketing of the Issuer's products and services are, in part, driven by customer segmentation to ensure the Issuer meets the needs of each customer segment. For instance, the Issuer continues to develop hybrid financial products with enhanced features, including various deposit products and investment products, for which consumer demand has increased in recent years. The Issuer is also focusing on addressing the needs of its customers by providing the highest-quality products and services and developing an open-architecture strategy, which allows the Issuer to sell such products through one of the largest branch networks in Korea. In short, the Issuer aims to offer its customers a convenient one-stop financial services destination where they can meet their traditional retail and corporate banking requirements, as well as find a broad array of fee-based products and services tailored to address more specific banking and wealth management needs. The Issuer believes such differentiated, comprehensive services and cross-selling will not only enhance customer loyalty but also increase profitability.

One of the Issuer's key customer-related strategies continues to be creating greater value and better service for the Issuer's customers. The Issuer intends to continue improving its customer service, including through:

- *Improved customer relationship management technology.* Management has devoted substantial resources towards the development of the Issuer's customer relationship management system, which is designed to provide the Issuer's employees with the information needed to continually improve the level of service and incentives offered to the Issuer's preferred customers. The Issuer's system is based on an integrated customer database, which allows for better customer management and streamlines the Issuer's customer reward system. The Issuer has also developed state-of-the-art call centres, smartphone application and online Internet capabilities to provide shorter response times to customers seeking information or to execute transactions. The Issuer's goals are to continually focus on improving customer service to satisfy its customer's needs through continuing efforts to deliver new and improved services and to upgrade the Issuer's customer relationship management system to provide the best possible service to the Issuer's customers in the future.
- *Enhanced distribution channels.* The Issuer also believes it can improve customer retention and usage rates by increasing the range of products and services the Issuer offers and by developing a differentiated, multi-channel distribution network, including branches, ATMs, call centres, smartphone banking and Internet banking. The Issuer believes that its leading market position in the commercial banking area in Korea gives it a competitive advantage in developing and enhancing its distribution capabilities.

Focusing on expanding and improving credit quality in the Issuer's corporate lending business and increasing market share in the corporate financial services market

The Issuer plans to focus on corporate lending as one of the Issuer's core businesses through attracting top-tier corporate customers and providing customised and distinctive products and services to build the Issuer's position as a leading bank in the Korean corporate financial market. To increase the Issuer's market share in providing financial services to the corporate market, the Issuer intends to:

- promote a more balanced and strengthened portfolio with respect to the Issuer's corporate business by developing the Issuer's large corporate customer base and utilising the Issuer's improved credit management operations to better evaluate new large corporate and SME customers;

- develop and sell more varied corporate financial products, consisting of transactional banking products which provide higher margin and less risk;
- generate more fee income from large corporate customers through business-to-business transactions, foreign exchange transactions and derivative and other investment products;
- strengthen the Issuer's marketing system based on the Issuer's accumulated expertise in order to attract top-tier corporate customers;
- focus on enhancing the Issuer's channel network in order to provide the best service by strengthening its corporate customer management; and
- further develop and train the Issuer's core professionals with respect to this market, including through programmes such as the "Career Development Path."

Strengthening internal risk management capabilities

The Issuer believes that ensuring strong asset quality through effective credit risk management is critical to maintaining stable growth and profitability, and risk management will continue to be one of the Issuer's key focus areas. One of the Issuer's highest priorities is to improve the Issuer's asset quality and more effectively price the Issuer's lending products to take into account inherent credit risk in the Issuer's portfolio. The Issuer's goal is to maintain the soundness of the Issuer's credit portfolio, profitability and capital base. To this end, the Issuer intends to continue to strengthen its internal risk management capabilities by tightening its underwriting and management policies and improving its internal compliance policies. To accomplish this objective, the Issuer has undertaken the following initiatives:

- *Strengthening underwriting procedures with advanced credit scoring techniques*. The Issuer has centralised its credit management operations into its credit group. Through such centralisation, the Issuer aims to enhance its credit management expertise and improve its system of checks-and-balances with respect to its credit portfolio. The Issuer has also improved its ability to evaluate the credit of the Issuer's SME customers through assigning experienced credit officers to the Issuer's regional credit offices. The Issuer also requires one officer to evaluate, review and monitor the outstanding loans and other credits with respect to a customer, which the Issuer believes enhances the expertise and improves the efficiency and accountability of such officer, while enabling the Issuer Business to maintain a consistent credit policy. The Issuer has also, as a general matter, implemented enhanced credit analysis and scoring techniques, which the Issuer believes will enable it to make better-informed decisions about the credit the Issuer extends and improve the Issuer's ability to respond more quickly to incipient credit problems. The Issuer is also focusing on enhancing its asset quality through improvement of the Issuer's early monitoring systems and collection procedures.
- *Improving internal compliance policies and ensuring strict application in daily operations*. The Issuer has improved its monitoring capabilities with respect to its internal compliance by providing training and educational programmes to its management and employees. The Issuer has also implemented strict compliance policies to maintain the integrity of the Issuer's risk management system.

Cultivating a performance-based, customer-oriented culture that emphasises market best practices

The Issuer believes a strong and dedicated workforce is critical to its ability to offer its customers the highest quality banking services and is integral to its goal of maintaining its position as one of Korea's leading financial service providers. In the past, the Issuer has dedicated significant resources to develop and train its core professionals, and the Issuer intends to continue to enhance the productivity of its employees, including by regularly sponsoring in-house training and educational programmes. The Issuer has also been seeking to cultivate a performance-based culture to create a work environment where members of its staff are incentivised to maximise their potential and in which the Issuer's employees are directly rewarded for superior performance. The Issuer intends to maintain a professional workforce whose high quality of customer service reflects its goal to achieve and maintain global best practice standards in all areas of operations.

Branch Network

As of December 31, 2016, the Issuer had 1,130 branches and sub-branches in Korea, which represented one of the largest branch networks among Korean commercial banks. An extensive branch network is important to attracting and maintaining retail customers, who use branches extensively and value convenience. The following table presents the geographical distribution of the Issuer's branch network in Korea as of December 31, 2016:

Area	Number of branches	Percentage
Seoul	405	35. 8%
Six largest cities (excluding Seoul)	268	23. 7
Other	457	40. 5
Total	1,130	100.0 %

In addition, the Issuer has continued to implement the specialisation of its branch functions. Of its branch network as of December 31, 2016, the Issuer had four branches that primarily handled large corporate banking.

In order to support the Issuer's branch network, the Issuer has established an extensive network of ATMs, which are located in branches and in unmanned outlets known as "autobanks." As of December 31, 2016, the Issuer had 8,479 ATMs.

The Issuer has actively promoted the use of these distribution outlets in order to provide convenient service to customers, as well as to maximise the marketing and sales functions at the branch level, reduce employee costs and improve profitability. The aggregate number of transactions conducted using the Issuer's ATMs amounted to approximately 573 million in 2014, 548 million in 2015 and 495 million in 2016.

Retail Banking

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

Lending Activities

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

	As of December 31,					
	2014		2015		2016	
	(in billions of Won, except percentages)					
Retail:						
Mortgage and home equity loans	86,918	77.6%	87,692	75.7%	92,934	75.2%
Other consumer loans(1)	25,124	22.4	28,088	24.3	30,693	24.8
Total	112,042	100.0%	115,780	100.0%	123,627	100.0%

Note:

(1) Includes overdraft loans.

The Issuer's retail loans consist of:

- *Mortgage loans*, which are loans made to customers to finance home purchases, construction, improvements or rentals, and *home equity loans*, which are loans made to the Issuer's customers secured by their homes to ensure loan repayment. The Issuer also provides overdraft loans in connection with the Issuer's home equity loans.

- *Other consumer loans*, which are loans made to customers for any purpose (other than mortgage and home equity loans). These include overdraft loans, which are loans extended to customers to cover insufficient funds when they withdraw funds from their demand deposit accounts with the Issuer in excess of the amount in such accounts up to a limit established by the Issuer.

For secured loans, including mortgage and home equity loans, the Issuer's policy is to lend up to 100% of the adjusted collateral value minus the value of any lien or other security interests that are prior to the Issuer's security interest. In calculating the adjusted collateral value for real estate, the Issuer uses the appraisal value of the collateral multiplied by a factor, generally between 40% to 70%. This factor varies depending upon the location and use of the real estate and is established in part by taking into account court-supervised auction prices for nearby properties.

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

Mortgage and Home Equity Lending

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

Private sector mortgage and home equity lending in Korea has expanded substantially in recent years. The Issuer provides customers with a number of mortgage and home equity loan products that have flexible features, including terms, repayment schedules, amounts and eligibility for loans, and the Issuer offers interest rates on a commercial basis. The maximum term of mortgage loans is 35 years and the majority of the Issuer's mortgage loans have long-term maturities, which may be renewed. Non-amortising home equity loans have an initial maturity of one year, which may be extended on an annual basis for a maximum of five years. Home equity loans subject to amortisation of principal may have a maximum term of up to 35 years. Any customer is eligible for a mortgage or an individual home equity loan regardless of whether it participates in one of the Issuer's housing related savings programmes and so long as that customer is not barred by regulation from obtaining a loan because of bad credit history. However, customers with whom the Issuer frequently transacts business and who provide the Issuer with significant revenue receive preferential interest rates on loans.

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

Pricing. The interest rates on the Issuer's retail mortgage loans are generally based on a periodic floating rate (which is based on a base rate determined for three-month, six-month or 12-month periods using the Issuer's Market Opportunity Rate system, which reflects the Issuer's internal cost of funding, further adjusted to account for the Issuer's expenses related to lending). The Issuer's interest rates also incorporate a margin based among other things on the type of security, the credit score of the borrower and the estimated loss on the security. The Issuer can adjust the price to reflect the borrower's current and/or expected future contribution to it. The applicable interest rate is determined at the time of the loan. If a loan is terminated prior to its maturity, the borrower is obligated to pay the Issuer an early termination fee of approximately 0.7% to 1.4% of the loan amount in addition to the accrued interest.

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

Other Consumer Loans

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

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

Deposit-taking Activities

Due to the Issuer's extensive nationwide network of branches, together with the Issuer's long history of development and the Issuer's resulting know-how and expertise, as of December 31, 2016, the Issuer had the largest number of retail customers and retail deposits among Korean commercial banks. The total amount of deposits from the Issuer's retail customers amounted to ₩157,213 billion as of December 31, 2016, or 66.7% of the Issuer's total deposits.

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

- *Demand deposits*, which either do not accrue interest or accrue interest at a lower rate than time deposits. Demand deposits allow the customer to deposit and withdraw funds at any time and, if they are interest bearing, accrue interest at a variable rate depending on the amount of deposit.

- *Time deposits*, which generally require the customer to maintain a deposit for a fixed term, during which the deposit accrues interest at a fixed rate or a variable rate based on the KOSPI, or to deposit specified amounts on an instalment basis. If the amount of the deposit is withdrawn prior to the end of the fixed term, the customer will be paid a lower interest rate than that originally offered. The term for time deposits typically ranges from one month to five years, and the term for instalment savings deposits ranges from six months to ten years. Most instalment savings deposits offer fixed interest rates.

- *Certificates of deposit*, the maturities of which typically range from 30 days to 730 days with a required minimum deposit of ₩10 million. Interest rates on certificates of deposit are determined based on the length of the deposit and prevailing market rates. The Issuer's certificates of deposit are sold at a discount to their face value, reflecting the interest payable on the certificates of deposit.
- *Foreign currency deposits*, which are available to Korean and foreign residents, non-residents and overseas immigrants. The Issuer offers foreign currency demand deposits and time deposits as well as checking accounts in 11 currencies. *Foreign currency demand deposits*, which accrue interest at a variable rate, allow customers to deposit and withdraw funds at any time. *Foreign currency time deposits* generally require customers to maintain the deposit for a fixed term, during which the deposit accrues interest at a fixed rate. If the funds in a foreign currency time deposit are withdrawn prior to the end of the fixed term, the customer will be paid a lower interest rate than that originally offered.

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

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

In 2002, after significant research and planning, the Issuer launched private banking operations at its headquarters. Shortly thereafter, the Issuer launched a comprehensive strategy with respect to customers with higher net worth, which included staffing appropriate representatives, marketing aggressively, establishing IT systems, selecting appropriate branch locations and readying such branches with the necessary facilities to service such customers. As of December 31, 2016, the Issuer operated 21 private banking centres.

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

The Depositor Protection Act provides for a deposit insurance system where the KDIC guarantees to depositors the repayment of their eligible bank deposits. The deposit insurance system insures up to a total of ₩50 million per depositor per bank. See "*Regulation and Supervision—Legal and Regulatory Framework in Korea—Deposit Insurance System*." The Issuer paid ₩359 billion in 2016 for such premium.

Corporate Banking

The Issuer lends to and takes deposits from SMEs and, to a lesser extent, large corporate customers. The Issuer also receives fee revenue from "cash management" services offered to corporate customers, which include "firm banking" services such as inter-account transfers, transfers of funds from various branches and agencies of a company (such as insurance premium payments) to the account of the headquarters of such company and transfers of funds from various customers of a company to the main account of such company. Of the Issuer's branch network as of December 31, 2016, four branches primarily handled large corporate banking.

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

	As of December 31,					
	2014		2015		2016	
	(in billions of Won, except percentages)					
Corporate:						
SME loans	70,516	70.8%	77,005	71.8%	82,216	73.5%
Large corporate loans	29,042	29.2	30,360	28.2	25,592	26.5
Total	99,558	100.0%	107,365	100.0%	111,808	100.0%

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

The total amount of deposits from the Issuer's corporate customers amounted to ₩74,246 billion as of December 31, 2016, or 31.5 per cent. of the Issuer's total deposits.

SME Banking

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

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

Lending Activities

The Issuer's principal loan products for its SME customers are working capital loans and facilities loans. Working capital loans are provided to finance working capital requirements and include notes discounted and trade financing. Facilities loans are provided to finance the purchase of equipment and the establishment of manufacturing assembly plants. As of December 31, 2016, the Issuer had over 260,000 SME customers on the lending side.

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

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

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

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

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

Pricing

The Issuer establishes the price for its corporate loan products based principally on transaction risk, the Issuer's cost of funding and market considerations. Transaction risk is measured by such factors as the credit rating assigned to a particular borrower, the size of the borrower and the value and type of collateral. The Issuer's loans are priced based on the Market Opportunity Rate system, which is a periodic floating rate system that takes into account the current market interest rate.

While the Issuer generally utilises the Market Opportunity Rate system, depending on the price and other terms set by competing banks for similar borrowers, the Issuer may adjust the interest rate it charges to compete more effectively with other banks.

Large Corporate Banking

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

Lending Activities

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

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

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

Pricing

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

Capital Markets Activities and International Banking

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

Securities Investment and Trading

The Issuer invests in and trades securities for the Issuer's own account in order to maintain adequate sources of liquidity and to generate interest and dividend income and capital gains. As of December 31, 2014, 2015 and 2016, the Issuer's investment portfolio, which consists primarily of held-to-maturity financial assets and available-for-sale financial assets, and the Issuer's trading portfolio had a combined total carrying amount of ₩36,779 billion, ₩39,400 billion and ₩43,689 billion and represented 13.4%, 13.6% and 14.2% of the Issuer's total assets, respectively.

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

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

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

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

	As of December 31,		
	2014	2015	2016
	(in billions of Won)		
Financial assets at fair value through profit or loss			
Financial assets held for trading			
Debt securities:			
Government and public bonds	2,035	1,301	2,150
Financial bonds	3,581	3,134	3,658
Corporate bonds	1,204	1,438	1,446
Asset-backed securities	282	218	222
Others	267	196	217
Equity securities:			
Stocks	60	31	34
Beneficiary certificates	40	29	27
Others	51	69	72
Total financial assets held for trading	7,520	6,417	7,827
Financial assets designated at fair value through profit or loss			
Derivative linked securities	—	70	130
Total financial assets designated at fair value through profit or loss	—	70	130
Total financial assets at fair value through profit or loss	7,520	6,488	7,956
Financial investments			
Available-for-sale financial assets			
Debt securities:			
Government and public bonds	4,214	3,202	6,591
Financial bonds	6,260	6,377	8,370
Corporate bonds	4,743	3,534	4,117
Asset-backed securities	1,198	5,181	2,730
Equity securities:			
Stocks	1,788	1,440	1,776
Equity investments	46	41	148
Beneficiary certificates	884	1,387	3,572
Others	1	1	1
Total available-for-sale financial assets	19,134	21,163	27,305
Held-to-maturity financial assets			
Debt securities:			
Government and public bonds	2,725	1,870	1,534
Financial bonds	1,047	2,024	1,528
Corporate bonds	5,880	3,710	1,782
Asset-backed securities	472	4,144	3,583
Total held-to-maturity financial assets	10,124	11,749	8,427
Total financial investments	29,259	32,912	35,732

Derivatives Trading

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

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

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

	As of December 31,					
	2014		2015		2016	
	Estimated Fair Value Assets	Estimated Fair Value Liabilities	Estimated Fair Value Assets	Estimated Fair Value Liabilities	Estimated Fair Value Assets	Estimated Fair Value Liabilities
	(in billions of Won)					
Foreign exchange derivatives[(1)]	762	662	1,110	1,091	2,060	2,066
Interest rate derivatives[(1)]	1,119	1,085	1,074	1,044	725	767
Equity derivatives	29	9	0	2	2	0
Others[(1)]	0	2	1	1	8	0
Total	1,910	1,759	2,186	2,139	2,795	2,833

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

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

Asset Securitisation Transactions

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

Call Loans

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

Investment Banking

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

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

International Banking

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

The table below sets forth certain information regarding the Issuer's foreign currency assets and borrowings:

	As of December 31,		
	2014	2015	2016
	(in billions of Won)		
Total foreign currency assets	16,427	20,157	20,661
Foreign currency borrowings:			
Debts	7,124	7,134	7,204
Debentures	2,890	3,783	3,469
Total borrowings	10,014	10,917	10,673

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

Branches	
Kookmin Bank (China) Ltd., Beijing Branch	China
Kookmin Bank (China) Ltd., Guangzhou Branch	China
Kookmin Bank (China) Ltd., Harbin Branch	China
Kookmin Bank (China) Ltd., Suzhou Branch	China
Kookmin Bank, Osaka Branch	Japan
Kookmin Bank, Tokyo Branch	Japan
Kookmin Bank, Auckland Branch	New Zealand
Kookmin Bank, New York Branch	United States
Kookmin Bank, Ho Chi Minh City Branch	Vietnam
Kookmin Bank Cambodia PLC, Toul Kork Branch	Cambodia

Representative Offices	
Kookmin Bank, Mumbai Representative Office	**India**
Kookmin Bank, Yangon Representative Office	Myanmar
Kookmin Bank, Hanoi Representative Office	Vietnam

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

In March 2008, the Issuer entered into agreements to acquire shares of JSC Bank CenterCredit, a Kazakhstan bank, and acquired an initial equity stake of 29,972,840 common shares (equal to 23.0% of the then outstanding voting shares) for approximately ₩528 billion in August 2008. Pursuant to the terms of such agreements, the Issuer acquired an aggregate of 14,163,836 additional common shares of JSC Bank CenterCredit in November and December 2008. In addition, in September 2009, the Issuer entered into agreements with International Finance Corporation and certain shareholders of JSC Bank CenterCredit pursuant to which the Issuer acquired 3,886,574 additional common shares and 36,561,465 non-voting convertible preferred shares of JSC Bank CenterCredit in January and February 2010. As of December 31, 2016, the Issuer held 29.6% of the outstanding common shares of JSC Bank CenterCredit, which was accounted for under the equity method. In February 2017, the Issuer entered into an agreement with a consortium led by Tsesnabank of Kazakhstan for the sale of all of the common shares and non-voting convertible preferred shares of JSC Bank CenterCredit held by the Issuer. The completion of the sale is subject to regulatory approvals and other conditions.

In May 2009, the Issuer acquired 132,600 common shares of Khmer Union Bank, a Cambodian bank, for approximately ₩10 billion. As a result, the Issuer acquired 51% of the voting rights in Khmer Union Bank, which was renamed Kookmin Bank Cambodia PLC. In December 2010, July 2012 and June 2013, the Issuer acquired additional 37,602 common shares, 125,592 common shares and 24,206 common shares of Kookmin Bank Cambodia PLC, respectively. As of December 31, 2016, the Issuer held 100% of the outstanding common shares of Kookmin Bank Cambodia PLC.

Trustee and Custodian Services Relating to Investment Trusts and Other Functions

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

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

Other Businesses

Trust Account Management Services

Money Trust Management Services

The Issuer provides trust account management services for both specified money trusts and unspecified money trusts. The Issuer receives fees for its trust account management services consisting of basic fees that are based upon a percentage of either the net asset value of the assets or the principal under management and, for certain types of trust account operations, performance fees that are based upon the performance of the trust account operations. In 2016, the Issuer's basic fees ranged from 0.1% to 2.0% of total assets under management depending on the type of trust account. The Issuer also charges performance fees with respect to certain types of trust account products. The Issuer receives penalty payments when customers terminate their trust accounts prior to the original contract maturity.

The Issuer provides trust account management services for various types of money trusts. The money trusts the Issuer manages are generally trusts with a fixed maturity. Approximately 4.8% of the Issuer's money trusts also provide periodic payments of dividends which are added to the assets held in such trusts and not distributed.

Under Korean law, the assets of the Issuer's trust accounts are segregated from the Issuer's banking account assets and are not available to satisfy the claims of any of the Issuer's potential creditors. The Issuer is, however, permitted to deposit surplus funds generated by trust assets into the Issuer's banking accounts in certain circumstances as set forth under the Financial Investment Services and Capital Markets Act (the **FSCMA**) and the regulations thereunder.

As of December 31, 2016, the total balance of the Issuer's money trusts was ₩39,907 billion (as calculated in accordance with Statement of Korea Accounting Standard No. 5004, *Trust Accounts*, and the Enforcement Regulations of Financial Investment Services under the FSCMA, which the Issuer refers to as an **SKAS basis**).

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

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

	As of December 31,		
	2014	2015	2016
	(in billions of Won)		
Principal and interest guaranteed trusts(1)	0	0	0
Principal guaranteed trusts(1)	3,187	3,324	3,532
Performance trusts(1)(2)	25,854	31,499	36,375
Total	29,041	34,823	39,907

Notes:
(1) Calculated on an SKAS basis.
(2) Trusts which are primarily non-guaranteed.

As of December 31, 2016, the trust assets the Issuer managed consisted principally of securities investments and loans from the trust accounts. As of December 31, 2016, on an SKAS basis, the Issuer's trust accounts had invested in securities in the aggregate amount of ₩21,908 billion, of which ₩18,889 billion was debt securities and derivative-linked securities. Securities investments consist of Government-related debt securities, corporate debt securities, including bonds and commercial paper, equity securities, derivative-linked securities and other securities. Loans made by the Issuer's trust account operations are similar in type to the loans made by the Issuer's bank account operations. As of December 31, 2016, on an SKAS basis, the Issuer's trust accounts had made loans in the principal amount of ₩180 billion (excluding loans from the trust accounts to the Issuer's banking accounts of ₩1,467 billion), which accounted for 0.5% of the Issuer's money trust assets. Loans by the Issuer's money trusts are subject to the same credit approval process as loans from the Issuer's banking accounts. As of December 31, 2016, substantially all of the loans from the Issuer's money trust accounts were collateralised or guaranteed.

The Issuer's money trust accounts also invest, to a lesser extent, in equity securities, including beneficiary certificates issued by financial investment companies with a collective investment licence. On an SKAS basis, as of December 31, 2016, equity securities in the Issuer's money trust accounts amounted to ₩3,019 billion, which accounted for 7.6% of the Issuer's money trust assets. Of this amount, ₩2,942 billion was from specified money trusts and ₩77 billion was from unspecified money trusts.

The Issuer continues to offer pension-type money trusts that provide a guarantee of the principal amount of the investment. On an SKAS basis, as of December 31, 2016, the balance of the money trusts for which the Issuer guaranteed the principal was ₩3,520 billion.

If the income from a money trust for which the Issuer provides a guarantee is less than the amount of the payments the Issuer has guaranteed, the Issuer will need to pay the amount of the shortfall with funds from special reserves maintained with respect to trust accounts followed by basic fees from that money trust and funds from the Issuer's general banking operations. In 2014, 2015 and 2016, the Issuer made no such payments from the Issuer's banking accounts to cover shortfalls in the Issuer's guaranteed trusts.

Property Trust Management Services

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

In 2016, the Issuer's property trust fees ranged from 0.001% to 0.3% of total assets under management depending on the type of trust accounts. On an SKAS basis, as of December 31, 2016, the aggregate balance of the Issuer's property trusts increased to ₩6,862 billion, compared to ₩2,344 billion as of December 31, 2015.

Management of the National Housing Urban Fund

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

In February 2013, the Ministry of Land, Infrastructure and Transport (formerly the Ministry of Land, Transport and Maritime Affairs) designated the Issuer as one of the managers of the National Housing Urban Fund.

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

Bancassurance

The Issuer offers insurance products of other institutions to retail customers in Korea. The Issuer currently markets a wide range of bancassurance products and seeks to generate additional fee-based revenues by expanding its offering of these products. As of December 31, 2016, the Issuer's bancassurance business had alliances with 18 life insurance companies (including its affiliate, KB Life Insurance) and nine non-life insurance companies (including its affiliate, KB Insurance) and offered 68 different products through the Issuer's branch network.

Other Banking Channels

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

	As of December 31,		
	2014	2015	2016
Internet banking:			
Number of users(1)	16,767,588	17,930,962	19,095,749
Number of transactions (in thousands)(2)	4,569,185	4,755,832	5,094,063
Phone banking:			
Number of users(3)	4,914,616	4,955,278	4,989,769
Number of transactions (in thousands)(2)	165,130	152,404	147,157
Smartphone banking:			
Number of users(4)	9,484,234	10,862,526	12,301,753
Number of transactions (in thousands)(2)	3,752,319	4,083,426	5,169,324

Notes:

(1) Number of users is defined as the total cumulative number of retail and corporate customers who have registered through branch offices to use Internet banking services.

(2) Number of transactions includes balance and transaction inquiries, fund transfers and other transactions.

(3) Number of users is defined as the total cumulative number of retail and corporate customers who have registered through branch offices to use phone banking services.

(4) Number of users is defined as the total cumulative number of retail customers who have registered through branch offices, or the customers' smartphones, to use smartphone banking services.

Internet Banking

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

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

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

Phone Banking

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

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

Smartphone Banking

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

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

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

Other Channels

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

Competition

The Issuer competes principally with other nationwide commercial banks in Korea, as well as regional banks, development banks, specialised banks and branches of foreign banks operating in Korea. The Issuer also competes for customer funds with other types of financial service institutions, including savings institutions (such as mutual savings and finance companies and credit unions and credit cooperatives), investment institutions (such as merchant banking corporations), life insurance companies, securities companies and other financial investment companies. Competition in the domestic banking industry is generally based on the types and quality of the products and services offered, including the size and location of retail networks, the level of automation and interest rates charged and paid.

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

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

Furthermore, the introduction of Internet primary banks in Korea is expected to increase competition in the Korean banking industry. Internet primary banks operate only a small number of, or without branches and conduct most of their operations through electronic means, which enable them to minimise cost and offer customers higher interest rates on deposits or lower lending rates. In April 2017, KBank, the first Internet primary bank in Korea, commenced operations. Kakao Bank, another Internet primary bank, in which the Issuer holds a 10% equity interest, is expected to commence operations in the first half of 2017.

Moreover, the Korean commercial banking sector is undergoing significant consolidation. The number of nationwide commercial banks in Korea has decreased from 16 as of December 31, 1997, to six banks and four financial holding companies as of December 31, 2016. A number of significant mergers and acquisitions in the industry have taken place in Korea in recent years, including Hana Financial Group's acquisition of a controlling interest in Korea Exchange Bank in February 2012 and the subsequent merger of Hana Bank into Korea Exchange Bank in September 2015. In addition, as part of the Government's plans to privatise Woori Finance Holdings Co., Ltd. (the financial holding company of Woori Bank), certain subsidiaries of Woori Finance Holdings were sold to other financial institutions and Woori Finance Holdings itself was merged into Woori Bank in 2014. The Issuer expects that consolidation in the Korean financial industry will continue. The financial institutions resulting from such consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for the Issuer. The Issuer and its parent, KB Financial Group, intend to review potential acquisition opportunities as they arise. The Issuer cannot guarantee that it will not be involved in any future mergers or acquisitions.

Information Technology

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

The Issuer's mainframe-based banking IT systems are designed to ensure continuity of services even where there is a failure of the host data centre due to a natural disaster or other accidents by utilising backup systems in disaster recovery data centres. In addition, through the implementation of Parallel Sysplex, a "multi-CPU system," the Issuer's banking systems are designed and operated to be able to process transactions without material interruption in the event of CPU failure. In 2010, the Issuer launched a next-generation banking IT system that is designed to ensure greater reliability in financial transactions and allow more efficient development of new financial products. The Issuer also launched a new disaster recovery system to ensure continuity of operations. In addition, the Issuer implemented new technologies, including Multi-Channel Integration and Enterprise Application Integration systems, to standardise its IT system and better manage IT system operational risk.

The integrity and the ability of the Issuer's IT systems to withstand potential catastrophic events (such as natural calamities and internal system failures) are crucial to the Issuer's continuing operations. The Issuer currently tests its disaster recovery systems on a quarterly basis. For additional information, see "*—Risk Management—Operational Risk Management.*"

Property, Plant and Equipment

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

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

In addition, the Issuer entered into a land purchase agreement in March 2016 to purchase a site of approximately 4,727 square metres located in Yeoido, Seoul, on which it plans to construct a new headquartres building (with a floor space of approximately 56,000 square metres) by 2020.

As of December 31, 2016, the Issuer had a countrywide network of 1,130 branches and sub-branches.

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

Employees

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

	As of December 31,		
	2014	2015	2016
Full-time employees[1]	20,758	19,855	19,882
Contractual employees	903	1,044	1,218
Managerial employees	11,561	11,034	11,023
Members of Korea Financial Industry Union	16,977	16,548	16,375

Note:

(1) Excluding executive officers.

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

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

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

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

In accordance with the National Pension Act, the Issuer contributes an amount equal to 4.5% of employee wages, and each employee contributes 4.5% of his or her wages, into each employee's personal pension account. In addition, in accordance with the Guarantee of Worker's Retirement Benefits Act, the Issuer has adopted retirement pension plans for its employees. Contributions under the retirement pension plans are deposited annually into a financial institution, and an employee may elect to receive a monthly pension or a lump-sum amount upon retirement. The Issuer's retirement pension plans are provided in the form of a defined benefit plan and a defined contribution plan. The defined benefit plan guarantees a certain payout at retirement, according to a fixed formula based on the employee's average salary and the number of years for which the employee has been a plan member. The defined contribution plan, in which the employer's contribution is determined in advance based on one-twelfth of an employee's total annual pay, is managed directly by the employees. Under Korean law, the Issuer may not terminate the employment of full-time employees except under certain limited circumstances. However, the Issuer regularly invites its employees to apply for its early retirement programmes, which provide for varying amounts of severance pay based on the duration of time an employee has worked for the Issuer, along with several other key features. The Issuer believes that such programmes enhance its productivity and efficiency by improving its labour structure.

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

Employees of the Issuer have been eligible to participate in its employee stock ownership plan, which will be terminated once all of KB Financial Group's common stock held by the plan (which the plan received following the transfer of the Issuer's shares held by it as a result of the comprehensive stock transfer pursuant to which KB Financial Group was established) has been distributed to the relevant employees of the Issuer at the request of such employees following the expiration of the required holding periods. As of December 31, 2016, the Issuer's employee stock ownership association held 2,018,501 shares of KB Financial Group common stock.

Legal Proceedings

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

In January 2008, the KFTC instituted certain amendments to standard loan policy conditions for mortgage loan agreements to require banks to be responsible for the payment of mortgage registration expenses when issuing mortgage loans. Subsequently, the Korea Federation of Banks and 16 banks, including the Issuer, filed a lawsuit against the KFTC to prevent the implementation of such amendments. In August 2010, the Supreme Court ruled in favour of the KFTC. Since such ruling in August 2010, certain of the Issuer's customers have filed a total of 133 lawsuits against the Issuer, alleging that it should return the mortgage registration expenses paid by such customers under mortgage loan agreements that did not reflect the amendments instituted by the KFTC in January 2008. As of December 31, 2016, all such lawsuits had been concluded in the Issuer's favour. Additional lawsuits may be filed against the Issuer with respect to its mortgage loans, and the final outcome of such litigation remains uncertain.

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

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

In June 2012, Korea Lottery Services Co., Ltd. (**Korea Lottery Services**), a lottery system operator in connection with the Issuer's former lottery operations, filed a lawsuit against the Issuer in the Seoul Central District Court seeking ₩1 billion in damages it allegedly suffered because the Issuer entered into a seven-year service contract with Korea Lottery Services when the Issuer had a five-year lottery operations contract with the Government. The Issuer terminated the service contract with Korea Lottery Services upon the expiration of its lottery operations contract with the Government, which did not reappoint the Issuer as a lottery operator. In March 2015, Korea Lottery Services increased the amount of damages claimed to ₩108 billion. The Seoul Central District Court dismissed the case in June 2015 and Korea Lottery Services appealed the case to the Seoul High Court, which dismissed the case in February 2016. Korea Lottery Services appealed the case to the Supreme Court of Korea in March 2016, which rules in favour of the Issuer in December 2016.

In July 2012, the KFTC commenced an investigation into alleged collusion among domestic financial institutions, including banks and securities companies, in setting interest rates applicable to three-month certificates of deposit. Such rates were used as a benchmark for banks' lending rates until a new benchmark rate for bank lending was introduced in December 2012. In February 2016, the KFTC sent its formal written report of findings to six commercial banks, including the Issuer, and the respondents submitted their response briefs in April 2016. In July 2016, citing insufficient evidence to prove violation of Korean fair trade laws, the KFTC announced that it has decided to terminate its investigation. However, the KFTC noted that it could resume its investigation in the future if it finds sufficient evidence to prove that the domestic commercial banks violated Korean fair trade laws.

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

ASSETS AND LIABILITIES

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

Loan Portfolio

Loan Types

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

	As of December 31,		
	2014	2015	2016
	(in billions of Won)		
Domestic:			
Corporate			
SME	70,516	77,005	82,216
Large corporate[(1)]	29,042	30,360	29,593
Retail			
Mortgage and home equity	86,919	87,692	92,934
Other consumer	25,124	28,088	30,692
Total domestic	211,600	223,145	235,435
Foreign	1,146	1,272	1,337
Total gross loans	212,746	224,417	236,772

Note:

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

Twenty Largest Exposures by Borrower

As of December 31, 2016, on a separate basis, the Issuer's 20 largest exposures totalled ₩10,226 billion and accounted for 7.7% of its total exposures. The following table sets forth, on a separate basis, the Issuer's total exposures to these top 20 borrowers or issuers as of December 31, 2016.

	Loans						
Company[(1)]	Won Currency	Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposures	Amounts Classified as Impaired Loans
	(in billions of Won)						
KEB Hana Bank	54	1,015	—	452	—	1,521	—
Samsung Electronics	—	998	—	—	—	998	—
Hyundai Heavy Industries	58	107	—	—	552	717	—
Daewoo Shipbuilding & Marine Engineering	101	22	—	—	524	647	—
Samsung Heavy Industries	100	4	—	—	456	560	—
Posco Daewoo	—	326	—	—	179	505	—
SK Holdings	90	—	402	10	—	502	—
Hyundai Steel	400	26	—	—	59	485	—
Hyundai Capital Service	403	—	—	46	—	449	—
Posco	—	—	407	15	—	422	—
LS-Nikko Copper	—	249	—	—	171	420	—
LG Electronics	390	—	—	—	—	390	—

Company(1)	Loans: Won Currency	Loans: Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposures	Amounts Classified as Impaired Loans
	(in billions of Won)						
Shinsegae	1	—	—	—	362	363	—
Dongbu Securities	—	356	—	—	—	356	—
S-Oil Corporation	58	278	—	—	—	336	—
Hankook Tire	—	55	—	—	275	330	—
KIA Motors Corp	150	161	—	6	—	317	—
Hyundai Motor Company	—	295	—	—	9	304	—
Hanwha	283	6	—	—	15	304	—
Yuanta Securities Korea	—	300	—	—	—	300	—
	2,088	4,198	809	529	2,602	10,226	—

Note:

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

As of December 31, 2016, 17 of these top 20 borrowers or issuers were companies belonging to the 39 largest *chaebols* in Korea designated as such by the FSS based on their outstanding exposures.

Exposure to Chaebols

As of December 31, 2016, on a separate basis, 7.5 per cent. of the Issuer's total exposure was to the 39 largest *chaebols* in Korea designated as such by the FSS based on their outstanding exposures. The following table shows, on a separate basis, the Issuer's total exposures to the ten *chaebol* groups to which it has the largest exposure as of December 31, 2016:

Chaebol	Loans: Won Currency	Loans: Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposures	Amounts Classified as Impaired Loans
	(in billions of Won)						
Samsung	298	1,412	404	10	754	2,878	—
Hyundai Motors	1,153	661	—	52	675	2,541	—
Hanwha	743	109	605	21	92	1,570	—
Hyundai Heavy Industries	100	406	—	—	742	1,248	—
Posco	192	344	407	15	252	1,210	—
SK	157	353	402	55	189	1,156	—
Lotte	555	198	—	10	106	869	—
LS	7	320	0	—	349	676	—
Daewoo Shipbuilding & Marine Engineering	116	22	—	—	523	661	—
LG	461	71	—	—	109	641	—
Total	3,782	3,896	1,818	163	3,791	13,450	—

Loan Concentration by Industry

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

	As of December 31,					
	2014		2015		2016	
Industry	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)					
Services	38,907	38.7	43,625	40.2	47,488	42.0
Manufacturing	32,327	32.1	35,022	32.2	35,356	31.3
Wholesale and retail	13,109	13.0	13,408	12.3	13,669	12.1
Financial institutions	9,081	9.0	9,111	8.4	9,414	8.3
Construction	3,663	3.6	3,349	3.1	2,881	2.5
Public sector	714	0.7	754	0.7	805	0.7
Others	2,864	2.9	3,337	3.1	3,473	3.1
Total	100,666	100.0	108,606	100.0	113,086	100.0

Maturity Analysis

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

The following table sets out, on a separate basis, the scheduled maturities (time remaining until maturity) of the Issuer's loan portfolio as of December 31, 2016. The amounts disclosed are before deduction of allowances for loan losses:

	1 Year or Less	Over 1 year But Not More Than 5 Years	Over 5 Years	Total
	(in billions of Won)			
Domestic:				
Corporate				
SMEs	58,399	18,944	4,873	82,216
Large corporate	20,067	6,138	3,387	29,592
Total corporate	78,466	25,082	8,260	111,808
Retail				
Mortgage and home equity	7,242	8,985	76,707	92,934
Other consumer	21,512	5,674	3,506	30,692
Total retail	28,754	14,659	80,213	123,627
Total domestic	107,221	39,741	88,473	235,435
Foreign	1,180	108	49	1,337
Total gross loans	108,401	39,849	88,522	236,772

Interest Rate Sensitivity

The following table shows, on a separate basis, the total amount of loans due after one year which have fixed interest rates and variable or adjustable interest rates as of December 31, 2016:

	As of December 31, 2016
	(in billions of Won)
Fixed rate(1)	9,077
Variable or adjustable rates(2)	119,294
Total gross loans	128,371

Notes:

(1) Fixed rate loans are loans for which the interest rate is fixed for the entire term.

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

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

Credit Exposures to Companies in Workout, Restructuring or Rehabilitation

Workout is a voluntary procedure through which the Issuer, together with the borrower and other creditors, seeks to restore the borrower's financial stability and viability. Previously, workouts were regulated under a series of Corporate Restructuring Promotion Acts, which last expired on December 31, 2015. In March 2016, the National Assembly of Korea adopted a new Corporate Restructuring Promotion Act, which is scheduled to expire on June 30, 2018. Under the new Corporate Restructuring Promotion Act, creditors of a financially troubled borrower may participate in a creditors' committee, which is authorised to prohibit such creditors from exercising their rights against the borrower, commence workout procedures and approve or make revisions to a reorganisation plan prepared by the lead creditor bank, the borrower and external experts. The composition of the creditors' committee is determined at the initial meeting of the committee by the approval of creditors holding not less than 75% of the borrower's total outstanding debt held by creditors who were notified of the initial meeting of the committee. Although creditors that are not financial institutions or hold less than 1% of the total outstanding debt of the borrower need not be notified of the initial meeting of the creditors' committee, if such creditors wish to participate, they may not be excluded. Any decision of the creditors' committee requires the approval of creditors holding not less than 75% of the total outstanding debt of the borrower. However, if a single creditor holds 75% or more of the borrower's total outstanding debt held by the creditors comprising the creditors' committee, any decision of the creditors' committee requires the approval of not less than 40% of the total number of creditors (including such single creditor) comprising the committee. An additional approval of creditors holding not less than 75% of the secured debt is required with respect to the borrower's debt restructuring. Once approved, any decision made by the creditors' committee is binding on all creditors of the borrower, with the exception of those creditors that were excluded by a resolution of the committee at its initial meeting and those who exercised their right to request that their claims be purchased. Creditors that voted against commencement of workout, approval or revision of the reorganisation plan, debt restructuring, granting of new credit, extension of the joint management process or other resolutions of the committee have the right to request the creditors that voted in favour of such matters to purchase their claims at a mutually agreed price. In the event that the parties are not able to agree on the terms of purchase, a coordination committee consisting of experts would determine the terms. The creditors that oppose a decision made by the coordination committee may request a court to change such decision.

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

As of December 31, 2016, on a separate basis, the Issuer's loans and guarantees to companies that were in As of December 31, 2016, on a separate basis, the Issuer's loans and guarantees to companies that were in workout, restructuring or rehabilitation amounted to ₩499 billion or 0.2 per cent. of the Issuer's total loans and guarantees, most of which were classified as impaired.

The following table shows, on a separate basis, the Issuer's ten largest exposures that were in workout, restructuring or rehabilitation as of December 31, 2016:

Company	Loans		Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposures	Amounts Classified as Impaired Loans
	Won Currency	Foreign Currency					
				(in billions of Won)			
Dongmoon Construction	72	—	—	—	—	72	72
Samho International	47	—	13	—	—	60	—
Orient Shipyard	49	2	0	—	—	51	51
Hyundai Cement	0	—	38	—	—	38	0
Hong Won Paper Mfg	10	5	—	—	2	17	17
Trans-Pacific Resource	—	12	—	—	3	15	15
Shindongah E&C	14	—	—	—	—	14	14
Solarpark Korea	12	—	—	—	—	12	12
Woojeon	—	11	—	—	—	11	11
JV Engineering Company	8	—	—	—	—	8	8
Total	212	31	51	—	5	299	200

Provisioning Policy

The Issuer establishes allowances for loan losses with respect to loans to absorb such losses. The Issuer assesses individually significant loans on a case-by-case basis and other loans on a collective basis. In addition, if the Issuer determines that no objective evidence of impairment exists for a loan, it includes such loan in a group of loans with similar credit risk characteristics and assesses them collectively for impairment regardless of whether such loan is significant. For individually significant loans, allowances for loan losses are recorded if objective evidence of impairment exists as a result of one or more events that occurred after initial recognition. For collectively assessed loans, the Issuer bases the level of allowances for loan losses on its evaluation of the risk characteristics of such loans, taking into account such factors as historical loss experience, the financial condition of the borrowers and current economic conditions. If additions or changes to the allowances for loan losses are required, then the Issuer records a provision for loan losses, which is included in impairment losses on credit loss and treated as a charge against current income. Credit exposures that the Issuer deems to be uncollectible, including actual loan losses, net of recoveries of previously charged-off amounts, are charged directly against the allowances for loan losses.

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

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

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

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

Loan Aging Schedule

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

As of December 31,	Normal Amount	%	Amount Past Due 1-3 Months	%	Amount Past Due 3-6 Months	%	Amount Past Due 6 Months or More	%	Total Amount
	(in billions of Won, except percentages)								
2014	211,534	99.4	493	0.2	239	0.1	480	0.2	212,746
2015	223,405	99.5	389	0.2	237	0.1	386	0.2	224,417
2016	235,871	99.6%	299	0.1%	164	0.1%	438	0.2%	236,772

Non-performing Loans

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

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

	As of December 31,		
	2014	2015	2016
	(in billions of Won, except percentages)		
Total non-performing loans	719	623	602
As a percentage of total loans	0.3%	0.3%	0.3%

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

Analysis of Non-Performing Loans

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

	As of December 31,					
	2014		2015		2016	
	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)					
Domestic:						
Corporate						
SMEs	293	40.8	254	40.8	206	34.3
Large corporate	81	11.2	111	17.8	201	33.4
Total corporate	374	52.0	365	58.6	407	67.7
Retail						
Mortgage and home equity	207	28.8	170	27.4	122	20.4
Other consumer	95	13.2	78	12.6	70	11.6
Total retail	302	42.0	249	39.9	192	31.9
Total domestic	676	93.9	614	98.5	599	99.6
Foreign:	44	6.1	9	1.5	3	0.4
Total non-performing loans	719	100.0	623	100.0	602	100.0

Top 20 Non-Performing Loans

As of December 31, 2016, the Issuer's 20 largest non-performing loans accounted for, on a separate basis, 45.3 per cent. of its total non-performing loan portfolio. The following table shows, on a separate basis, certain information regarding the Issuer's 20 largest non-performing loans as of December 31, 2016:

	Industry	Gross Principal Outstanding	Allowances for Loan Losses[(1)]
		(in billions of Won)	
Borrower A	Manufacturing	61	61
Borrower B	Manufacturing	57	57
Borrower C	Services	42	42
Borrower D	Manufacturing	17	2
Borrower E	Services	17	17
Borrower F	Manufacturing	14	1
Borrower G	Manufacturing	10	10
Borrower H	Services	8	1
Borrower I	Services	6	6
Borrower J	—	6	6
Borrower K	Services	5	5
Borrower L	Manufacturing	4	4
Borrower M	Manufacturing	4	0
Borrower N	—	4	2
Borrower O	Wholesale/Retail trade	3	2
Borrower P	Wholesale/Retail trade	3	1
Borrower Q	—	3	0
Borrower R	Manufacturing	3	0
Borrower S	Services	3	0
Borrower T	Services	3	0
Total		273	217

Note:

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

Non-performing Loan Strategy

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

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

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

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

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

Methods for resolving non-performing loans include the following:

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

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

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

- selling the Issuer's non-performing loans to third parties, including the Korea Asset Management Corporation; and

- entering into asset securitisation transactions with respect to the Issuer's non-performing loans.

he Issuer generally expects to suffer a partial loss on loans that it sells or securitises, to the extent such sales and securitisations are recognised under Korean IFRS as sale transactions.

Pursuant to a memorandum of understanding among the FSS and seven banks, including the Issuer, a private equity fund was established in June 2011 to acquire approximately ₩1.2 trillion of nonperforming bank loans to construction companies in workout, restructuring or rehabilitation. The general partner of the fund is United Asset Management Corp. and the limited partners consist of the seven banks and other investors. The fund purchases non-performing bank loans at market price and the funds required to purchase such loans are contributed or lent by the same banks that sell such loans to the fund. In June 2011, the Issuer agreed to make a capital commitment of ₩148 billion and provide a ₩109 billion revolving loan facility to the fund. From June through December 2011, the Issuer contributed the entire amount of its capital commitment to the fund in connection with its purchase of ₩148 billion of non-performing loans from the Issuer. In September 2012, the Issuer agreed to increase its capital commitment to ₩241 billion. From September through December 2012, the Issuer contributed ₩44 billion to the fund. The Issuer's revolving loan facility to the fund was decreased to ₩55 billion in 2013 and terminated in 2014.

Allocation and Analysis of Allowances for Loan Losses

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

	As of December 31,					
	2014		2015		2016	
	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)					
Domestic						
Corporate						
SME	790	41.3	737	36.7	561	35.8
Large corporate	610	31.9	814	40.5	660	42.1
Total corporate	1,400	73.3	1,551	77.3	1,221	77.9
Retail						
Mortgage and home equity	47	2.5	35	1.7	23	1.4
Other consumer	430	22.2	397	19.8	310	19.8
Total retail	476	24.9	432	21.5	333	21.2
Total domestic	1,877	98.2	1,983	98.8	1,553	99.1
Foreign(1)	34	1.8	24	1.2	15	0.9
Total allowances for loan losses	1,911	100.0	2,007	100.0	1,568	100.0

Note:

(1) Consists primarily of loans to corporations.

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

	For the year ended December 31,		
	2014	2015	2016
	(in billions of Won, except percentages)		
Balance at the beginning of the period	2,373	1,911	2,007
Amounts charged against income	877	794	281
Sale	(68)	(50)	(41)
Gross charge-offs:			
Domestic:			
Corporate			
SME	725	408	446
Large corporate	328	275	277
Retail			
Mortgage and home equity	149	15	6
Other consumer	371	281	246
Foreign:	17	0	2
Total gross charge-offs	(1,590)	(979)	(978)
Recoveries:			
Domestic:			
Corporate			
SME	263	153	199
Large corporate	0	0	0
Retail			
Mortgage and home equity	32	63	43
Other consumer	98	114	108
Foreign:	1	4	0
Total recoveries	394	333	350
Net charge-offs	(1,196)	(646)	(627)
Other charges	(75)	(2)	(52)
Balance, at the end of the period	1,911	2,007	1,568
Ratio of net charge-offs during the period to average loans outstanding during the period	0.6%	0.3%	0.3%

Regulatory Reserve for Credit Losses

If the Issuer's allowances for credit losses are deemed insufficient for regulatory purposes, the Issuer is required to compensate for the difference by recording a regulatory reserve for credit losses, which is segregated within the Issuer's retained earnings. Regulatory reserve for credit losses is not available for distribution to shareholders as dividends. The level of regulatory reserve for credit losses required to be recorded is equal to the amount by which the Issuer's allowances for credit losses are less than the greater of (x) the amount of expected loss calculated using the internal ratings-based approach under Basel III and as approved by the FSS and (y) the required amount of credit loss reserve calculated based on standards prescribed by the FSC. As of December 31, 2016, the Issuer's regulatory reserve for credit losses was ₩2,001 billion.

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

Loan Classification	Loan Characteristics
Normal	Loans extended to customers that, based on the Issuer's consideration of their business, financial position and future cash flows, do not raise concerns regarding their ability to repay the loans.
Precautionary	Loans extended to customers that (i) based on the Issuer's consideration of their business, financial position and future cash flows, show potential risks with respect to their ability to repay the loans, although showing no immediate default risk or (ii) are in arrears for one month or more but less than three months.
Substandard	(i) Loans extended to customers that, based on the Issuer's consideration of their business, financial position and future cash flows, are judged to have incurred considerable default risks as their ability to repay has deteriorated; or (ii) the portion that the Issuer expects to collect of total loans (a) extended to customers that have been in arrears for three months or more, (b) extended to customers that have incurred serious default risks due to the occurrence of, among other things, final refusal to pay their debt instruments, entry into liquidation or bankruptcy proceedings, or closure of their businesses, or (c) extended to customers who have outstanding loans that are classified as "doubtful" or "estimated loss."
Doubtful	Loans exceeding the amount that the Issuer expects to collect of total loans to customers that: (i) based on the Issuer's consideration of their business, financial position and future cash flows, have incurred serious default risks due to noticeable deterioration in their ability to repay; or (ii) have been in arrears for three months or more but less than 12 months.
Estimated loss	Loans exceeding the amount that the Issuer expects to collect of total loans to customers that: (i) based on the Issuer's consideration of their business, financial position and future cash flows, are judged to be accounted as a loss because the inability to repay became certain due to serious deterioration in their ability to repay; (ii) have been in arrears for 12 months or more; or (iii) have incurred serious risks of default in repayment due to the occurrence of, among other things, final refusal to pay their debt instruments, liquidation or bankruptcy proceedings or closure of their business.

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

Note:

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

Loan Charge-Offs

Basic Principles

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

Loans to be Charged Off

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

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

Procedure for Charge-off Approval

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

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

Treatment of Loans Charged Off

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

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

Investment Portfolio

Investment Policy

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

- maintain the stability and diversification of the Issuer's assets;

- maintain adequate sources of back-up liquidity to match the Issuer's funding requirements; and
- supplement income from the Issuer's core lending activities.

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

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

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

Category	Classification
Financial assets held for trading	Financial assets bought and held for trading.
Financial assets designated at fair value through profit or loss	Financial assets which were not bought and held for trading but are otherwise designated as at fair value through profit or loss.
Available-for-sale financial assets	Non-derivative financial assets not classified as held-to-maturity, at fair value through profit or loss or loans and receivables.
Held-to-maturity financial assets	Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Issuer has the positive intent and ability to hold to maturity.

The Issuer also holds limited balances of venture capital securities, non-marketable and restricted equity securities and derivative instruments.

Carrying Amount and Fair Value

The following table sets out the carrying amount and fair value of securities in the Issuer's securities portfolio as of the dates indicated:

	As of December 31,					
	2014		2015		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in billions of Won)					
Available-for-sale financial assets:						
Equity securities	2,718	2,718	2,869	2,869	5,497	5,497
Debt securities						
Korean treasury securities and government agency securities	4,214	4,214	3,202	3,202	6,591	6,591
Debt securities issued by financial institutions	6,260	6,260	6,377	6,377	8,370	8,370
Corporate debt securities	4,743	4,743	3,534	3,534	4,117	4,117
Asset-backed securities	1,198	1,198	5,181	5,181	2,730	2,730
Total available-for-sale financial assets	19,134	19,134	21,163	21,163	27,305	27,305
Held-to-maturity financial assets:						
Debt securities						
Korean treasury securities and government agency securities	2,725	2,903	1,871	2,020	1,534	1,634
Debt securities issued by financial institutions	1,047	1,057	2,024	2,039	1,528	1,480
Corporate debt securities	5,880	6,053	3,710	3,828	1,782	1,842
Asset-backed securities	472	474	4,144	4,186	3,583	3,622
Total held-to-maturity financial assets	10,124	10,487	11,749	12,073	8,427	8,578
Financial assets at fair value through profit or loss:						
Financial assets held for trading:						
Equity securities	100	100	61	61	61	61
Debt securities						
Korean treasury securities and government agency securities	2,035	2,035	1,301	1,301	2,150	2,150
Debt securities issued by financial institutions	3,581	3,581	3,134	3,134	3,658	3,658
Corporate debt securities	1,204	1,204	1,438	1,438	1,446	1,446
Asset-backed securities	282	282	218	218	222	222
Others	267	267	196	196	217	217
Others	51	51	69	69	72	72
Total financial assets held for trading	7,520	7,520	6,417	6,417	7,827	7,827
Financial assets designated at fair value through profit or loss:						
Derivative linked securities	—	—	70	70	130	130
Total financial assets designated at fair value through profit or loss	—	—	70	70	130	130
Total financial assets at fair value through profit or loss	7,520	7,520	6,487	6,487	7,956	7,956
Total securities	36,778	37,142	39,399	39,723	43,689	43,838

Maturity Analysis

For information regarding the scheduled maturities of the Issuer's securities portfolio and other financial assets as of December 31, 2016, see Note 4.3.3 of the notes to the Issuer's consolidated financial statements included elsewhere in this Offering Circular.

Concentrations of Risk

As of December 31, 2016, the Issuer held the following securities of individual issuers where the aggregate carrying amount of those securities exceeded 10% of the Issuer's total equity at such date. As of December 31, 2016, the Issuer's total equity was ₩23,325 billion.

	Carrying Amount	Fair Value
	(in billions of Won)	
Name of issuer:		
Government	9,739	9,838
Korea Housing Finance Corporation	6,360	6,399
BOK	4,535	4,535
Total	20,634	20,772

The Korea Housing Finance Corporation is owned by the Government and the BOK. The BOK is controlled by the Government.

Funding

The Issuer obtains funding for its lending activities from a variety of sources, both domestic and foreign. The Issuer's principal source of funding is customer deposits. In addition, the Issuer acquires funding through long-term borrowings (comprising debentures and debts), short-term borrowings, including borrowings from the BOK, and call money.

The Issuer's primary funding strategy has been to achieve low-cost funding by increasing the average balances of low-cost retail deposits, in particular demand deposits and time deposits. The Issuer also has focused its marketing efforts on higher net worth individuals, who account for a significant portion of the assets in its retail deposit base.

The Issuer's borrowings consist of issuances of debentures and debt from financial institutions, the Government and Government-affiliated funds. The majority of the Issuer's debt is long-term, with maturities ranging from one year to 30 years.

Deposits

Although the majority of the Issuer's deposits are short-term, it has been the Issuer's experience that the majority of the Issuer's depositors generally roll over their deposits at maturity, providing the Issuer with a stable source of funding.

The following table shows the average balances of the Issuer's deposits and the average rates paid on such deposits for the periods indicated:

	For the years ended December 31,					
	2014		2015		2016	
	Average Balance(1)	Average Rate Paid	Average Balance(1)	Average Rate Paid	Average Balance(1)	Average Rate Paid
	(in billions of Won, except percentages)					
Demand deposits:						
Non-interest bearing	3,565	—	3,836	—	4,073	—
Interest bearing	67,598	0.42%	82,693	0.35%	97,489	0.30%
Time deposits	130,177	2.70	123,845	2.16	124,741	1.69
Certificates of deposit	1,692	2.72	3,671	1.91	3,387	1.65
Average total deposits	203,032	1.89%	214,044	1.42%	229,690	1.07%

Note:

(1) Average balances are based on daily balances.

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

Time Deposits and Certificates of Deposit

The following table presents the remaining maturities of the Issuer's time deposits and certificates of deposit which had a fixed maturity in excess of ₩100 million as of December 31, 2016:

	Time Deposits	Certificates of Deposit	Total
	(in billions of Won)		
Maturing within three months	23,937	1,448	25,385
After three but within six months	12,500	481	12,980
After six but within 12 months	22,962	926	23,888
After 12 months	3,715	—	3,715
Total	63,114	2,855	65,968

Long-Term Borrowings

The aggregate amount of contractual maturities of all long-term borrowings (comprising debentures and debt) of the Issuer as of December 31, 2016 was as follows:

	As of December 31, 2016
	(in billions of Won)
Due in the year ended December 31, 2017	7,567
Due in the year ended December 31, 2018	4,512
Due in the year ended December 31, 2019	2,460
Due in the year ended December 31, 2020	2,752
Due in the year ended December 31, 2021	908
Thereafter	2,425
Gross long-term borrowings	20,624
Fair value adjustments	2
Deferred financing costs	(2)
Discount	(15)
Total long-term borrowings, net	20,610

Short-Term Borrowings

The following table presents information regarding the Issuer's short-term borrowings (borrowings with an original maturity of one year or less) for the periods indicated:

	As of and for the year ended December 31,		
	2014	2015	2016
	(in billions of Won, except percentages)		
Call money:			
Year-end balance	2,822	2,011	2,710
Average balance(1)	4,036	2,975	2,505
Maximum balance(2)	5,415	3,984	3,127
Average interest rate(3)	1.86%	1.18%	1.03%
Year-end interest rate	0.16-1.98%	0.24-5.00%	0.08-3.30%
Borrowings from the BOK:(4)			
Year-end balance	1,003	1,421	1,644
Average balance(1)	763	1,323	1,571
Maximum balance(2)	1,048	1,610	1,714
Average interest rate(3)	0.92%	0.72%	0.68%
Year-end interest rate	0.50-1.00%	0.50-0.75%	0.50-0.75%
Other short-term borrowings:(5)			
Year-end balance	6,898	3,974	5,180
Average balance(1)	5,420	5,816	4,248
Maximum balance(2)	7,399	7,085	5,938
Average interest rate(3)	1.11%	0.94%	0.70%
Year-end interest rate	0.00-4.81%	0.00-8.62%	0.00-7.50%

Notes:

(1) Average balances are based on daily balances.

(2) Maximum balances are based on month-end balances.

(3) Average interest rates for the year are calculated by dividing the total interest expense by the average amount borrowed.

(4) Borrowings from the BOK generally mature within one month for borrowings in Won and six months for borrowings in foreign currencies. These short-term borrowings were secured by securities totalling ₩1,741 billion as of December 31, 2016.

(5) Other short-term borrowings include securities sold under repurchase agreements, bills sold, borrowings and debentures. Other short-term borrowings have maturities of one year or less. Securities sold under repurchase agreements were secured by securities totalling ₩1,411 billion as of December 31, 2016.

RISK MANAGEMENT

Overview

As a financial services provider, the Issuer is exposed to various risks related to its lending and trading businesses, its funding activities and its operating environment. The Issuer's goal in risk management is to ensure that it identifies, measures, monitors and controls the various risks that arise, and that its organisation adheres strictly to the policies and procedures which it has established to address these risks. Under the Issuer's internal regulations pertaining to its capital adequacy ratio and internal standards for risk appetite and economic capital under Basel III, the Issuer identifies the following eight separate categories of risk inherent in its business activities: credit risk, market risk, operational risk, interest rate risk, liquidity risk, credit concentration risk, reputation risk and strategic risk. Of these, the principal risks to which the Issuer is exposed are credit risk, market risk, liquidity risk and operational risk, and it strives to manage these and other risks within acceptable limits.

Organisation

The Issuer delegates risk management authority to its Risk Management Committee. The Risk Management Committee measures and monitors the various risks faced by the Issuer and reports to the Issuer's board of directors regarding decisions that it makes on risk management issues. The Risk Management Committee also makes certain strategic risk-related decisions regarding the operations of the Issuer, such as allocating credit risk limits, setting total exposure limits and market risk-related limits and determining which market risk derivatives instruments the Issuer can trade. The major activities of the Risk Management Committee include:

- determining and monitoring risk policies, guidelines, limits and tolerance levels and the level of risk in accordance with group policy established by KB Financial Group;
- reviewing and analysing the Issuer's risk profile;
- setting limits for and adjusting the risk capital allocation plan and risk levels for each business unit within the Issuer; and
- monitoring compliance with the group-wide risk management policies and practices at the business unit and entity level.

The Risk Management Committee is supported by the Risk Management Council, which serves as the executive decision making body for the Issuer's risk management operations. At the operational level, the Issuer's Risk Management Department and the Credit Group work closely with its business groups to implement risk management strategies, policies and procedures in accordance with the directives set forth by KB Financial Group's Group Risk Management Committee and the risk management strategies determined by the Issuer's Risk Management Committee.

Credit Risk Management

Credit risk is the risk of expected and unexpected losses in the event of borrower or counterparty defaults. Credit risk management aims to improve asset quality and generate stable profits while reducing risk through diversified and balanced loan portfolios. The Issuer determines the creditworthiness of each type of borrower or counterparty through reviews conducted by its credit experts and through its credit rating systems, and the Issuer sets a credit limit for each borrower or counterparty.

The Issuer assesses and manages all credit exposures. The Issuer measures expected losses and economic capital on assets (whether on- or off-balance sheet) that are subject to credit risk management and uses expected losses and economic capital as management indicators. The Issuer manages credit risk by allocating credit risk economic capital limits. In addition, the Issuer controls credit concentration risk exposure by applying and managing total exposure limits to prevent excessive risk concentration to particular industries or borrowers. Credit exposures that the Issuer assesses and manages include loans to borrowers and counterparties, investments in securities, letters of credit, bankers' acceptances, derivatives and commitments. The Issuer's risk appetite, which is the ratio of its required economic capital to its estimated available book capital, is approved by KB Financial Group's Group Risk Management Committee once a year. Thereafter, the Issuer calculates economic capital every month for each business group and bank-wide based on attributed economic capital in accordance with the risk appetite as approved by the Group Risk Management Committee. The Issuer measures and reports profiles of credit risk on a bank-wide level and by business group regularly to relevant business groups and senior management, including the Risk Management Council and the Risk Management Committee.

The Issuer uses expected default rates and recovery rates to determine the expected loss rate of a borrower or counterparty. The Issuer uses the expected loss rate to make credit related decisions, including pricing, loan approval and establishment of standards to be followed at each level of decision making. These rates are calculated using information gathered from its internal database. With respect to large corporate borrowers, the Issuer also uses information provided by external credit rating services to calculate default rates and recovery rates.

The Issuer's credit risk management processes include:

- establishing credit policy;
- credit evaluation and approval;
- industry assessment;
- total exposure management;
- collateral evaluation and monitoring;
- credit risk assessment;
- early warning and credit review; and
- post-credit extension monitoring.

Credit Evaluation

The Issuer evaluates the ability of all loan applicants to repay their debts before it approves any loans, except for loans fully guaranteed by letters of guarantee issued by the Credit Guarantee Fund and the Korea Technology Credit Guarantee Fund, for loans fully secured by deposits and for other loans similarly guaranteed or secured. The Issuer assigns each borrower or guarantor a credit rating based on the judgment of its experts or scores calculated using the appropriate credit rating system. Factors that the Issuer considers in assigning credit ratings include both financial factors and non-financial factors, such as its perception of a borrower's reliability, management and operational risk and risk relating to the borrower's industry. The credit rating process differs according to the type, size and characteristics of a borrower.

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

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

Retail Loan Approval Process

Mortgage Loans and Secured Retail Loans

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

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

For loans secured by deposits, the Issuer will generally grant loans up to 95% of the deposit amount if the Issuer holds the deposit.

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

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

Unsecured Retail Loans

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

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

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

Corporate Loan Approval Process

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

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

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

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

- *Financial Model*. The financial model uses the borrower's current status and trend of financial ratios calculated using its financial statements. The financial model classifies potential borrowers into one of three size categories and one of five types of industry. This model incorporates logistic regression and statistical methods, which use financial ratios such as stability ratio, cash flow ratio, profitability ratio and turnover ratio, to make credit determinations.
- *Non-financial Model*. The non-financial model uses various qualitative and quantitative factors, such as future repayment capability, market prospects, management capability and business capability, to evaluate borrowers. The factors that are evaluated and the weighting given to each factor vary by type of industry and size of company.
- *Default Signal Check Model*. The default signal check model checks factors that have low frequency of occurrence but are highly likely to lead to a default in the event of an occurrence. The results of the default signal check model may be used to cap a borrower's credit grade.

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

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

Total Exposure Management

The Issuer establishes and manages total exposure limits for corporations, *chaebols* and industries, as well as certain SMEs, in order to optimise the use of credit availability and avoid excessive risk concentration. The Issuer establishes total exposure limits for large corporations to which it has exposures (in the form of securities or loans) of over ₩30 billion, SMEs to which the Issuer has exposures (in the form of securities or loans) of over ₩20 billion and *chaebols* designated by the FSS or by the Issuer, by reviewing factors such as their industry, size, cash flows, financial ratios and credit ratings, while establishing exposure limits for industries by peer group, as defined by the Issuer, by reviewing the sales growth rate and risk concentration for each industry. These total exposure limits are set following approval by the Issuer's Risk Management Council after review by the Credit Risk Management Subcommittee.

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

The Issuer manages and controls exposure limits on a daily basis. The principal system that the Issuer uses for this purpose is the Total Exposure Management System. This system allows the Issuer to monitor and control its total exposure to large corporations, *chaebols* and industries. The Issuer monitors its exposure to large corporations to which the Issuer has an exposure of ₩30 billion or more, individual corporations to which the Issuer has an exposure of more than ₩20 billion, and also its exposure to the 64 *chaebols* which comprise the 39 largest *chaebols* in Korea designated as such by the FSS based on their outstanding exposures as well as 25 *chaebols* selected for monitoring by the Senior Executive Vice President of the Risk Management Division. The Issuer also monitors its exposure to industries by peer groups. The Issuer's Total Exposure Management System integrates all of its credit-related risk including credit extended by its overseas branches and affiliates. The assets subject to the system include all Won-denominated and foreign currency-denominated loans, all assets in trust accounts except specified money trusts, guarantees, trade-related credits, commercial paper, corporate bonds and other securities and derivatives.

Collateral Evaluation and Monitoring System

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

Credit Risk Management and Monitoring

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

Credit Review

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

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

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

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

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

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

Market Risk Management

The major risk to which the Issuer is exposed is interest rate risk on debt instruments and interest bearing securities and, to a lesser extent, stock price risk and foreign exchange risk. The financial instruments that expose the Issuer to these risks are securities and financial derivatives. The Issuer is not exposed to commodity risk, the other recognised form of market risk, as it currently does not engage in commodities trading. The Issuer is also exposed to interest rate risk and liquidity risk in its banking book. The Issuer divides market risk into risks arising from trading activities and risks arising from non-trading activities.

The Issuer's Risk Management Council establishes overall market risk management principles. It has delegated the responsibility for the market risk management for trading activities to the Market Risk Management Subcommittee, which is chaired by its chief risk officer. This subcommittee meets on a regular basis each month and as required to respond to developments in the market and the economy. Based on the policies approved by the Risk Management Council, the Market Risk Management Subcommittee reviews and approves reports as required that include trading profits and losses, position reports, limit utilisation, sensitivity analysis and value at risk (VaR) analysis results for the Issuer's trading activities.

The Risk Management Council is responsible for interest rate and liquidity risk management of non-trading activities. It meets on a regular basis and as required to respond to developments in the market and the economy. Members of the Risk Management Council, acting through the Issuer's Risk Management Department, review the Issuer's interest rate and liquidity gap position monthly, as well as the business profile and its impact on asset and liability management.

To ensure adequate interest rate and liquidity risk management, the Issuer has assigned the responsibilities for its asset and liability risk management to its Risk Management Department in its Risk Management Group, which monitors and reviews the asset and liability operating procedures and activities of its Financial Planning Department and independently reports to the management on the related issues.

Market Risk Management for Trading Activities

The Issuer's trading activities consist of:

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

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

- to hedge interest rate risk arising from its trading activities, the Trading Department occasionally uses interest rate futures (Korea Treasury Bond Futures) and interest rate swaps;
- to hedge stock price risk arising from its trading activities, the Trading Department selectively uses stock index futures;
- to hedge interest rate risk and foreign exchange risk arising from its foreign currency-denominated asset and liability positions as well as its trading activities, the Trading Department and the Fund Management Department use interest rate swaps, cross-currency interest rate swaps, foreign exchange forwards and futures, Euro-dollar futures and currency options; and
- to change the interest rate characteristics of certain assets and liabilities after the original investment or funding, the Issuer uses swaps. For example, depending on the market situation, the Issuer may choose to obtain fixed rate funding instead of floating rate funding if it believes that the terms are more favourable, which the Issuer can achieve by entering into interest rate swaps.

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

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

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

VaR analysis. The Issuer uses VaR to measure market risk. VaR is a statistically estimated maximum amount of loss that could occur over a given period of time at a given level of confidence. VaR is a commonly used market risk management technique. However, this approach does have some shortcomings. VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and magnitude of the actual losses can be different depending on the assumptions made at the time of calculation. In addition, the time periods used for the model, generally one or ten days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or are too long, the VaR results may understate or overstate the potential loss. Different VaR methodologies and distributional assumptions could produce a materially different VaR. VaR is most appropriate as a risk measure for trading positions in liquid capital markets and will understate the risk associated with severe events, such as a period of extreme illiquidity.

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

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

	As of December 31,		
	2014	2015	2016
	(in millions of Won)		
Securities – Bond(1)	7,393,643	6,368,805	7,700,731
Securities – Equity(1)	60,122	31,397	34,131
Spot exchanges(2)	1,192,918	1,276,665	2,316,311
Derivatives(3)	3,808,515	4,416,844	5,778,082
Total	12,455,198	12,093,711	15,829,255

Note:

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

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

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

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

	As of December 31,		
	2014	2015	2016
	(in millions of Won)		
Risk Categories:			
Interest risk	10.1	15.8	14.9
Stock price risk	0.9	2.1	1.3
Foreign exchange risk	10.8	21.9	10.1
Less: diversification	(8.8)	(16.6)	(6.5)
Diversified VaR for overall trading activities	13.0	23.2	19.8

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

	Trading activities VaR for 2016			
	Average	Minimum	Maximum	As of December 31, 2016
	(in billions of Won)			
Interest risk	15.7	10.8	19.5	14.9
Stock price risk	1.8	0.9	2.3	1.3
Foreign exchange risk	16.5	8.3	22.2	10.1
Less: diversification	—	—	—	(6.5)
Diversified VaR for overall trading activities	19.0	11.6	28.5	19.8

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

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

In 2014, the average, high, low and ending amounts of ten-day HSVaR (at a 99% confidence level for a ten-day holding period) for the Issuer relating to its trading activities were as follows.

	Trading activities VaR for 2014			
	Average	Minimum	Maximum	As of December 31, 2014
	(in billions of Won)			
Interest risk	12.9	7.7	19.8	10.1
Stock price risk	1.6	0.7	3.9	0.9
Foreign exchange risk	12.0	5.1	14.7	10.8
Less: diversification	—	—	—	(8.8)
Diversified VaR for overall trading activities	15.4	10.1	23.6	13.0

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

- Interest rate risk:
  - General market risk: General market risk relates to the risk of losses from macroscopic events which could have an impact on interest rates, stock prices, exchange rates, and market prices of general commodities. General market interest rate risk of a debt security is calculated on its net position, taking into consideration the remaining maturity and coupon rate.
  - Specific risk: Specific risk relates to the risk of loss from changes in credit risk of issuers of debt securities or equities, excluding changes in general market prices. Specific interest rate risk of a

debt security is measured by multiplying the interest rate position appraised, based on the market price of such security, by the risk-weighted value applicable to the type of debt security, credit rating and the remaining maturity.

- Equity risk: General and specific equity risks are calculated by multiplying the bought or sold position by the relevant risk-weighted values.
- Foreign exchange risk: Foreign exchange risk is measured by multiplying the larger of the absolute values among the net bought or sold positions of each currency by the relevant risk-weighted values.
- Option risk: Option risk is measured using the delta, gamma and vega of the option.

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

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

	As of December 31,		
	2014	2015	2016
	(in millions of Won)		
30-year government bonds(1)	7,913	—	—
Currency rate swaps and foreign exchange positions(2)	117,334	—	1,706
Derivative-linked securities(3)	—	—	129,535
Options embedded in convertible bonds(4)	2,383	346	9,183
Total	127,630	346	140,424

Notes:

(1) Represents amounts marked to market. In the first half of 2015, the Issuer received approval from the FSS to use its internal VaR model, in lieu of the standardised method, to measure the market risk of 30-year government bonds held by the Issuer.

(2) Amounts as of December 31, 2014 represent the overall net open currency position in each currency held by Kookmin Bank (China) Ltd. and a special purpose vehicle with respect to the Issuer's covered bond programme. The overall net open currency position is the greater of (i) the sum of the absolute value of all short positions and (ii) the sum of the absolute value of all long positions. In the first half of 2015, the Issuer received approval from the FSS to use its internal VaR model, in lieu of the standardised method, to measure the market risk of positions held by Kookmin Bank (China) Ltd. As of December 31, 2015 and 2016, the Issuer held no currency rate swaps and foreign exchange positions that required the use of the standardised method to measure the Issuer's required equity capital. Amounts as of December 31, 2016 represent the value of interest rate swaps held by a special purpose vehicle of Kookmin Bank, for which the standardised method is used to measure Kookmin Bank's required equity capital.

(3) Amounts as of December 31, 2016 represent the value of interest rate swaps held by a special purpose vehicle of Kookmin Bank, for which the standardised method is used to measure Kookmin Bank's required equity capital.

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

The following table shows the Issuer's required equity capital measured using the standardised method as of the dates indicated:

	As of December 31,		
	2014	2015(1)	2016
	(in millions of Won)		
Risk categories:			
Interest risk	792	34	15,162
Stock price risk	1,101	118	4,817
Foreign exchange risk	9,387	—	—
Total	11,280	152	19,979

Note:

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

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

Stress testing. In addition to VaR, which assumes normal market situations, the Issuer uses stress testing to assess its market risk exposure to abnormal market fluctuations. Abnormal market fluctuations include significant declines in the stock market and significant increases in the general level of interest rates. This is an important way to supplement VaR, as VaR is a statistical expression of possible loss under a given confidence level and holding period. It does not cover potential loss if the market moves in a manner that is outside the Issuer's normal expectations. Stress testing projects the anticipated change in value of holding positions under certain scenarios assuming that no action is taken during a stress event to change the risk profile of a portfolio. According to its stress testing, the Issuer estimates that as of December 31, 2016, its trading portfolio could have lost ₩290.5 billion for an assumed short-term extreme decline of approximately 25 per cent. in the equity market and an approximate 50 basis point increase in the Korean treasury bond rates under an abnormal stress environment.

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

Interest Risk

Interest risk from trading activities arises mainly from the Issuer's trading of Won-denominated debt securities. Its trading strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates. As its trading accounts are marked-to-market daily, the Issuer manages the interest risk related to its trading accounts using market value-based tools such as VaR and sensitivity analysis. As of December 31, 2016, the VaR of the Issuer's interest risk from trading was ₩14.9 billion and the weighted average duration, or weighted average maturity, of its Won-denominated debt securities at fair value through profit or loss was approximately 2.2 years.

Foreign Exchange Risk

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

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

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

	As of December 31,		
	2014	2015	2016
	(in millions of US$)		
Currency:			
US$	(174.7)	(317.6)	(530.5)
Japanese Yen	(1.8)	(0.2)	1.3
Euro	(1.1)	(3.3)	(5.6)
Kazakhstan Tenge	56.5	29.7	27.0
Chinese Renminbi	30.7	11.3	70.8
Others	3.9	7.8	5.7
Total	(86.5)	(272.3)	(431.3)

Equity Price Risk

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

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

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

As of December 31, 2016, the Issuer's equity trading position was ₩61 billion.

Derivative Market Risk

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

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

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

Market Risk Management for Non-Trading Activities

Interest Rate Risk

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

The Issuer's principal interest rate risk management objectives are to generate stable net interest revenues and to protect its asset value against interest rate fluctuations. The Issuer principally manages this risk for its non-trading activities by analysing and managing maturity and duration gaps between its interest earning assets and interest bearing liabilities. Although the Issuer has used hedging instruments only on a limited basis for interest rate risk management for its non-trading assets and liabilities, to date the Korean financial market has not been sufficiently developed for this purpose. The Issuer expects to increase its use of derivatives to hedge this risk in the near future as the Korean financial market becomes more sophisticated.

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

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

- With respect to asset maturities, the Issuer assumes remaining maturities of prime rate-linked loans with remaining maturities of over one year to be one year and uses the actual maturities for prime rate-linked loans with remaining maturities of less than one year.
- With respect to liability maturities, the Issuer differentiates "noncore" and "core" demand deposits using the last 36 months' average balance of demand deposits. The Issuer assumes "non-core" demand deposits to have remaining maturities of one month or less and "core" demand deposits to have remaining maturities between one month and five years.

The following table shows the Issuer's consolidated interest rate gap for Won-denominated accounts and foreign currency-denominated accounts as of December 31, 2016:

	As of December 31, 2016					
	0-3 Months	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Total
	(in billions of Won, except percentages)					
Won-denominated Interest earning assets:						
Loans	77,239	62,587	48,502	9,019	21,890	219,237
Securities	2,850	1,979	4,401	15,146	6,673	31,049
Others	7,651	89	262	100	35	8,137
Total	87,740	64,655	53,165	24,265	28,598	258,423
Interest bearing liabilities:						
Deposits	92,022	34,354	48,319	26,167	23,421	224,283
Borrowings	5,750	0	0	63	0	5,813
Others	12,009	750	2,210	3,227	3,710	21,906
Total	109,781	35,104	50,529	29,457	27,131	252,002
Sensitivity gap	(22,041)	29,551	2,636	(5,192)	1,467	6,421
Cumulative gap	(22,041)	7,510	10,146	4,954	6,421	
% of total assets	(8.5)%	2.9%	3.9%	1.9%	2.5%	
Foreign currency-denominated Interest earning assets:						
Due from banks	10,241	1,878	635	29	33	12,816
Loans	1,041	135	541	596	470	2,783
Securities	1,966	192	1,040	556	1,209	4,963
Total	13, 248	2,205	2,216	1,181	1,712	20,562
Interest bearing liabilities:						
Deposits	3,626	3,972	1,016	683	27	9,324
Borrowings	4,452	970	516	79	4	6,021
Others	5,052	0	628	688	1,318	7,686
Total	13,130	4,942	2,160	1,450	1,349	23,031
Sensitivity gap	118	(2,737)	56	(269)	363	(2,469)
Cumulative gap	118	(2,619)	(2,563)	(2,832)	(2,469)	
% of total assets	0.6%	(12.7)%	(12.5)%	(13.8)%	(12.0)%	

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

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

Date	Asset Duration	Liability Duration	Duration Gap	Net Asset Value Change
Won denominated	(in years)	(in years)	(in years)	(in billions of Won)
June 30, 2016	0.907	0.914	0.043	(108)
December 31, 2016	0.963	0.922	0.104	(269)
Foreign-currency denominated				
June 30, 2016	0.399	0.249	0.115	(20)
December 31, 2016	0.352	0.350	(0.041)	(7)

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

The following table summarises the Issuer's interest rate risk, taking into account asset and liability durations as of December 31, 2016.

	As of December 31, 2016					
	0-3 Months	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Total
	(in billions of Won, except percentages and maturities in years)					
Won-denominated:						
Asset position	87,740	64,655	53,165	24,265	28,598	258,423
Liability position	109,781	35,104	50,529	29,457	27,131	252,002
Gap	(22,041)	29,551	2,636	(5,192)	1,467	6,421
Average maturity (year)	0.245	0.486	0.963	2.752	5.049	—
Interest rate volatility	0.35 %	0.55 %	0.55 %	0.33 %	0.33 %	—%
Amount at risk	3	68	7	(29)	18	67
Foreign currency-denominated:						
Asset position	13,248	2,205	2,216	1,181	1,712	20,562
Liability position	13,130	4,942	2,160	1,450	1,349	23,031
Gap	118	2,737	56	(269)	363	(2,469)
Average maturity (year)	0.247	0.492	0.965	2.752	5.047	—
Interest rate volatility	(0.78)%	(0.90)%	(0.91)%	(0.62)%	(0.48)%	—%
Amount at risk	(1)	14	(1)	4	(7)	9

Interest Rate VaR Analysis. Interest rate VaR is the estimated maximum possible loss on net non-trading assets due to unfavourable changes in interest rates. The Issuer calculates interest rate VaR based on interest earning assets and interest bearing liabilities, excluding trading positions, at a 99.90% confidence level. In 2012, the Issuer changed its method of calculating the interest rate impact from the previous internal simulation method of applying probable interest rate scenarios to a historical simulation method which uses actual historical price, volatility and yield changes in comparison with the current position to generate hypothetical portfolios and calculate a distribution of position and portfolio market value changes. The previous internal simulation method used extreme values in applying hypothetical interest rates to each maturity period, which the Issuer believes may result in exaggerated interest rate VaR values. Accordingly, the Issuer believes that the change in its interest rate VaR methodology to a historical simulation method allows the Issuer to benefit from more sophisticated risk measurements using practical scenarios. Using the historical simulation method, the Issuer's interest rate VaR was ₩112 billion as of December 31, 2014, ₩95 billion as of December 31, 2015 and ₩76 billion as of December 31, 2016.

Foreign Exchange Risk

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

LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk of insolvency or loss due to a disparity between the inflow and outflow of funds resulting from, for example, maturity mismatches, obtaining funds at a high price or disposing of securities at an unfavourable price due to lack of available funds. The Issuer manages its liquidity in order to meet its financial liabilities from withdrawals of deposits, redemption of matured debentures and repayments at maturity of borrowed funds. The Issuer also requires sufficient liquidity to fund loans, to extend other credits and to invest in securities. The Issuer's liquidity management goal is to meet all its liability repayments on time and fund all investment opportunities even under adverse conditions. To date, the Issuer has not experienced significant liquidity risk.

The Issuer maintains liquidity by holding sufficient quantities of assets that can be liquidated to meet actual or potential demands for funds from depositors and others. The Issuer also manages liquidity by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds the Issuer believes it could raise by issuing securities. The Issuer seeks to minimise its liquidity costs by managing its liquidity position on a daily basis and by limiting the amount of cash at any time that is not invested in interest earning assets or securities.

The Issuer maintains diverse sources of liquidity to facilitate flexibility in meeting its funding requirements. The Issuer funds its operations principally by accepting deposits from retail and corporate depositors, accessing the call loan market (a short-term market for loans with maturities of less than 90 days), issuing debentures and borrowing from the BOK and others. The Issuer uses the majority of funds it raises to extend loans or purchase securities. Generally, deposits are of shorter average maturity than loans or investments.

For Won-denominated assets and liabilities, the Issuer manages liquidity using a cash flow structure based on holding short-term liabilities and long-term assets. Generally, the average initial contract maturity of the Issuer's new Won-denominated time deposits was less than one year, while during the same period most of its new loans and securities had maturities over one year.

The Issuer manages liquidity risk within the limits set on Won and foreign currency accounts in accordance with the regulations of the FSC. The FSC requires Korean banks, including the Issuer, to maintain a liquidity coverage ratio of not less than 90% from January 1, 2017 to December 31, 2017 (compared to not less than 85% from January 1, 2016 to December 31, 2016), with such minimum liquidity coverage ratio to increase in increments of 5% per annum to 100% by 2019. The FSC defines the liquidity coverage ratio as the ratio of highly liquid assets to total net cash outflows over a one-month period. The highly liquid assets and total net cash outflows included in the calculation of the liquid coverage ratio are determined in accordance with the "Standards for Calculation of Liquidity Coverage Ratio" under the Detailed Regulation on the Supervision of the Banking Business. In addition, the FSC requires Korean banks, including the Issuer, to maintain a foreign currency liquidity coverage ratio of not less than 60% from January 1, 2017 to December 31, 2017, with such minimum foreign currency liquidity coverage ratio to increase in increments of 10% per annum to 80% by 2019; provided, however, that the foreign currency liquidity ratio (defined as the ratio of foreign currency assets due within three months to foreign currency liabilities due within three months) would apply if the amount of foreign currency assets and the ratio of foreign currency liabilities to total liabilities are less than the respective amount and ratio specified under the regulations of the Bank Act.

The Issuer's Treasury Department is responsible for daily liquidity management of the Issuer's Won and foreign currency exposure. The Treasury Department reports monthly plans for funding and operations to the Asset Liability Management Committee, which discusses factors such as interest rate movements and maturity structures of the Issuer's deposits, loans and securities and establishes strategies with respect to deposit and lending rates.

The following tables show the Issuer's liquidity coverage ratio and foreign currency liquidity ratio as of December 31, 2016 in accordance with FSC regulations:

	1 Month or Less
	(in billions of Won, except percentages)
Liquidity coverage ratio:	
Highly liquid assets (A)[1]	35,668
Cash outflows (B)	52,153
Cash inflows (C)	16,546
Total net cash outflows (D = B-C)	35,607
Liquidity coverage ratio (A/D)	100.17%
Minimum limit	85%

	7 Days or less	1 Months or less	3 Months or less
	(in millions of US$, except percentages)		
Foreign currency liquidity ratio:			
Foreign currency assets (A)	7,645	12,670	23,020
Foreign currency liabilities (B)	4,935	9,582	19,376
Maturity gap (C)	2,710	3,088	3,644
Cumulative gap	2,710	5,798	9,442
Total assets (D)	54,041	54,041	54,041
Liquidity gap ratio (C/D)	5.01%	5.71%	118.81%[2]
Minimum limits	(3)%	(10)%	85%

Notes:

(1) Includes both Won and foreign currency assets.

(2) Foreign currency liquidity ratio (A/B).

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

OPERATIONAL RISK MANAGEMENT

Overall Status

There is no complete consensus on the definition of operational risk in the banking industry. The Issuer defines operational risk broadly to include all financial and non-financial risks, other than credit risk, market risk, interest rate risk and liquidity risk, that may arise from its operations that could negatively impact its capital, including the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events as defined under Basel II. The Issuer's operational risk management objectives include not only satisfying regulatory requirements, but also providing internal support through the growth of a strong risk management culture, reinforcement of internal controls, improvement of work processes and provision of timely feedback to management members and staff throughout the Issuer.

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

- calculates its operational risk VaR on a quarterly basis using the "loss distribution approach VaR" and "scenario based VaR" methodology, and monitors operational risk in terms of Key Risk Indicators (KRI) using tolerance levels for each indicator;
- executes integrated compliance and operational risk Control Self Assessments (CSAs), that enhance the effect on internal controls, which the Issuer's employees are able to access and use for process improvement;
- collects and analyses internal and external loss data;
- conducts scenario analyses to evaluate exposure to high-severity events;

- manages certain insurance-related activities relating to insurance strategies established to mitigate operational risk;
- examines operational risks arising in connection with the development of, changes in or discontinuance of products, policies or systems;
- uses a detailed business continuity plan covering all of its operations and locations to prepare against unexpected events, including an alternate back-up site for use in disaster events as well as annual full-scale testing of such site;
- refines bank-wide operational risk policies and procedures;
- provides appropriate training and support to business line operational risk managers; and
- reports overall operational risk status to the Issuer's senior management.

While the Issuer's Risk Management Department advises relevant business units with respect to the review of and suggested improvements on related operational processes and procedures, each of the Issuer's relevant business units has primary responsibility for the management of its own operational risk. In addition, the Operational Risk Unit, which is part of the Issuer's Risk Management Department, monitors bank-wide operational risk. The Issuer also has business line operational risk managers in all of its subsidiaries, departments and branches who periodically conduct CSAs and monitor KRIs. For example, the Issuer has developed KRIs relating to customer data protection, which are applied and monitored at all domestic branches and offices. In addition, in order to strengthen risk management of its overseas operations, the Issuer designates expert auditors for overseas branches and conducts internal audits designed especially to check key risks identified for each overseas branch. The Issuer has also established a risk CSA system for overseas branches, pursuant to which all employees (including locally hired staff) of such branches are required to perform a risk CSA on a quarterly basis. Furthermore, the Issuer regularly monitors operational risks related to new businesses as well as existing operating processes and seeks to develop appropriate new KRIs and risk CSA measures on an ongoing basis. Through such method, the Issuer is able to ensure proper monitoring and measurement of operational risk in each of its business groups and overseas operations.

Internal Control

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

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

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

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

Legal Risk

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

IT System Operational Risk

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

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

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

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

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

MANAGEMENT

Directors and Senior Management

The Issuer's board of directors has ultimate responsibility for the management of the Issuer's affairs. The Issuer's Articles of Incorporation provide for a board of no more than 30 directors, of which three or more must be non-executive directors and non-executive directors must comprise more than half of the board of directors. The Issuer currently has two executive directors and four non-executive directors. The Issuer elects its directors at a general meeting of shareholders by a majority vote of those present or represented at such meeting as long as the affirmative votes represent at least a quarter of the Issuer's total issued and outstanding shares with voting rights.

The term of office for each of the Issuer's executive directors is three years and for each of the Issuer's non-executive directors is two years for the initial term and one year for any subsequent term, provided that, if a director's term of office expires after the end of a fiscal year but before the convening of the general shareholders' meeting concerning the said fiscal year, his/her term of office shall be extended until the end of the general shareholders' meeting. The Issuer's directors may serve consecutive terms and are subject to the Korean Commercial Code, the Bank Act and related regulations.

In respect of the members of the Issuer's board of directors and senior management, there are no potential conflicts between their duties to the Issuer and their other duties or private interests. The business address of all of the directors is the Issuer's registered office at 84, Namdaemoon-ro, Jung-gu, Seoul 04534, Korea.

Executive Directors

The table below sets forth the names, years of birth and positions of the Issuer's executive directors as of the date of this Offering Circular.

Name	Year of Birth	Position	Start of Term	End of Term
Jong Kyoo Yoon	1955	President and CEO	November 21, 2014	November 20, 2017
Hong Lee	1958	Senior Executive Vice President; Strategy and Finance Planning Group	January 12, 2015	March 22, 2018

Non-executive Directors

The non-executive directors are outside directors elected from among those persons who do not have a special relationship with the Issuer that would interfere with the exercise of their independent judgment. The Issuer's non-executive directors are selected based on the candidates' talents and skills in diverse areas, such as law, finance, economics, management and accounting. The table below sets forth the names, years of birth and positions of the Issuer's non-executive directors as of the date of this Offering Circular.

Name	Year of Birth	Position	Start of Term	End of Term
Ha Hyun Cho	1955	Non-executive Director	March 26, 2015	March 22, 2018
Chai Jin Lim	1952	Non-executive Director	March 23, 2017	March 22, 2018
Soon Ae Park	1965	Non-executive Director	March 26, 2015	March 22, 2018
Seung Weon Yoo	1965	Non-executive Director	March 26, 2015	March 22, 2018

Executive Officers

The table below sets forth the names, years of birth and positions of the Issuer's executive officers (other than its executive directors) as of the date of this Offering Circular.

Name	Year of Birth	Position
In Hur	1961	Senior Executive Vice President; Sales Group
Kwi Sang Jun	1960	Senior Executive Vice President; Corporate Investment Banking Group
Jeong Lim Park	1963	Senior Executive Vice President; Wealth Management Group
Ki Heon Kim	1955	Senior Executive Vice President; Information Technology Group
Jung Soo Huh	1960	Senior Executive Vice President; Strategy & Finance Planning Group
Pyoung Seob Oh	1960	Senior Executive Vice President; Customer Strategy Group
Yong Deok Lee	1960	Senior Executive Vice President; Credit Group
Jae Hong Park	1967	Senior Managing Director; Global Business Division
Nam Il Kim	1962	Senior Managing Director; SME/SOHO Banking Group
Ki Hwan Kim	1963	Senior Managing Director; Risk Management Group
Hong Seob Shin	1962	Senior Managing Director; Consumer Brand Strategy Group
Chang Won Kim	1961	Senior Managing Director; Trust & Pension Group
Sang Hyo Lee	1960	Senior Managing Directors; Chief Compliance Officer
Young Yeob Ahn	1961	Managing Director; Information Security Division
Dong Hwan Han	1965	Managing Director; Future Channel Group

Compensation

The aggregate remuneration paid and benefits in kind granted by the Issuer to its president and chief executive officer, its other executive directors, its non-executive directors and its executive officers for the year ended December 31, 2016 was ₩11,332 million. In addition, for the year ended December 31, 2016, the Issuer set aside ₩196 million for allowances for severance and retirement benefits for the Issuer's president and chief executive officer, the other executive directors and the Issuer's executive officers.

Committees of The Board of Directors

The Issuer currently has the following committees that serve under the board:

(a) the Audit Committee;

(b) the Risk Management Committee;

(c) the Evaluation & Compensation Committee;

(d) the Non-executive Director Nominating Committee; and

(e) the Audit Committee Member Nominating Committee.

Each committee member is appointed by the board of directors, except for members of the Audit Committee, who are elected at the general meeting of shareholders.

Audit Committee

The Audit Committee currently consists of three non-executive directors, Chai Jin Lim, Soon Ae Park and Seung Weon Yoo. The chairperson of the Audit Committee is Chai Jin Lim. The Audit Committee oversees the Issuer's financial reporting and approves the appointment of the Issuer's independent accountants. The committee also reviews the Issuer's financial information, auditor's examinations, key financial statement issues, the plans and evaluation of internal control and the administration of the Issuer's financial affairs by the board of directors. In connection with the general meetings of shareholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors to each general meeting of shareholders. The committee holds regular meetings every quarter.

Risk Management Committee

The Risk Management Committee currently consists of two non-executive directors, Seung Weon Yoo and Ha Hyun Cho, and one executive director, Hong Lee. The chairperson of the Risk Management Committee is Seung Weon Yoo. The Risk Management Committee oversees and makes determinations on all issues relating to the Issuer's comprehensive risk management function. In order to ensure the Issuer's stable financial condition and to maximise the Issuer's profits, the committee monitors the Issuer's overall risk exposure and reviews the Issuer's compliance with risk policies and risk limits. In addition, the committee reviews risk and control strategies and policies, evaluates whether each risk is at an adequate level, establishes or abolishes risk management divisions and reviews risk-based capital allocations. The committee holds regular meetings every quarter. See "*Risk Management*."

Evaluation & Compensation Committee

The Evaluation & Compensation Committee currently consists of two non-executive directors, Soon Ae Park and Chai Jin Lim, and one executive director, Hong Lee. The chairperson of the Evaluation & Compensation Committee is Soon Ae Park. The Evaluation & Compensation Committee reviews compensation schemes and compensation levels and is also responsible for evaluating management's performance.

Non-executive Director Nominating Committee

The committee currently consists of four non-executive directors, Ha Hyun Cho, Chai Jin Lim, Soon Ae Park and Seung Weon Yoo, together with the Issuer's president and chief executive officer, Jong Kyoo Yoon. The committee oversees the selection of non-executive director candidates and recommends them annually sometime prior to the general stockholders meeting. The term of office of its members is from the first meeting of the committee held to nominate the non-executive directors until the nominated non-executive directors are appointed.

Audit Committee Member Nominating Committee

The committee currently consists of three non-executive directors, Chai Jin Lim, Soo Ae Park and Seung Weon Yoo. The committee oversees the selection of Audit Committee member candidates and recommends them annually sometime prior to the general stockholders meeting. The term of office of its members is from the first meeting of the committee held to nominate the Audit Committee members until the Audit Committee members are appointed.

REGULATION AND SUPERVISION

Legal and Regulatory Framework in Korea

Overview

The banking system in Korea is governed by the Bank Act and the Bank of Korea Act. In addition, Korean banks are subject to regulations and supervision of the BOK, the MPG, the FSG and its executive body, the FSS.

The BOK, established in June 1950 under the Bank of Korea Act, performs the customary functions of a central bank. It seeks to contribute to the sound development of the national economy by price stabilisation through establishing and implementing efficient monetary and credit policies. The BOK acts under instructions of the MPG, the supreme policy-making body of the BOK.

Under the Bank of Korea Act, the MPG's primary responsibilities are to formulate monetary and credit policies and to determine the operations, management and administration of the BOK.

The FSG, established in April 1998, regulates commercial banks pursuant to the Bank Act, including establishing guidelines on capital adequacy of commercial banks, and promulgates regulations relating to supervision of banks. Furthermore, the FSG regulates market entry into the banking business.

The FSS, established in January 1999, is subject to the instructions and directives of the FSG and carries out supervision and examination of commercial banks. In particular, the FSS sets requirements both for the prudent control of liquidity and for capital adequacy and establishes reporting requirements pursuant to the authority delegated to it under the FSG regulations, pursuant to which banks are required to submit annual reports on financial performance and shareholdings, regular reports on management strategy and non-performing loans, including write-offs, and management of problem companies and plans for the settlement of bad loans.

Under the Bank Act, approval to commence a commercial banking business or a long-term financing business must be obtained from the FSG. Commercial banking business is defined as the lending of funds acquired predominantly from the acceptance of demand deposits for a period not exceeding one year or subject to the limitation established by the FSG, for a period between one year and three years. Long-term financing business is defined as the lending, for periods in excess of one year, of funds acquired predominantly from paid-in capital, reserves or other retained earnings, the acceptance of time deposits with maturities of at least one year, or the issuance of debentures or other bonds. A bank wishing to enter into any business other than commercial banking and long-term financing businesses, such as trust business, must obtain approval from the FSG. Approval to merge with any other banking institution, to liquidate, spin off, close a banking business or to transfer all or a part of a banking business must also be obtained from the FSG.

If the FSG deems a bank's financial condition to be unsound or if a bank fails to meet the applicable capital adequacy ratio set forth under Korean law, the FSG may order:

- admonitions, warnings or reprimands with respect to its officers and employees;
- capital increases or reductions;
- assignments of contractual rights and obligations relating to financial transactions;
- a suspension of performance by its officers of their duties and the appointment of receivers;
- stock cancellations or consolidations;
- disposals of property holdings;
- closures of subsidiaries or branch offices or downsizing;
- mergers with other financial institutions;

- acquisition of such bank by a third party; or
- suspensions of a part or all of its business operations.

Capital Adequacy

The Bank Act requires nationwide banks, such as the Issuer, to maintain a minimum paid-in capital of ₩100 billion and regional banks to maintain a minimum paid-in capital of ₩25 billion. All banks, including foreign bank branches in Korea, are also required to maintain a prescribed solvency position. A bank must also set aside in its legal reserve an amount equal to at least 10% of the net income after tax each time it pays dividends on net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital.

Under the Detailed Regulation on the Supervision of the Banking Business, the capital of a bank is divided into two categories, Tier I and Tier II capital. Tier I capital (core capital) consists of (i) common equity Tier I capital, including paid-in capital, capital surplus and retained earnings related to common equity and accumulated other comprehensive gains and losses, and (ii) additional Tier I capital, including paid-in capital and capital surplus related to hybrid Tier I capital instruments that, among other things, qualify as contingent capital and are subordinated to subordinated debt. Tier II capital (supplementary capital) consists of, among other things, capital and capital surplus from the issuance of Tier II capital, allowances for loan losses on loans classified as "normal" or "precautionary," subordinated debt and other capital securities which meet the standards prescribed by the governor of the FSS under Article 26(2) of the Regulation on the Supervision of the Banking Business.

All banks must meet minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets, determined in accordance with FSC requirements that have been formulated based on Bank of International Settlements standards. These requirements were adopted and became effective in 1996, and were amended effective January 1, 2008 upon the implementation by the FSS of the Basel II. Under such requirements, all domestic banks and foreign bank branches must meet a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8%. Commencing in July 2013, the FSC promulgated amended regulations implementing Basel III in Korea, pursuant to which Korean banks and bank holding companies were required to maintain a minimum ratio of common equity of Tier I capital to risk-weighted assets of 3.5% and Tier I capital to risk-weighted assets of 4.5% from December 1, 2013, which minimum ratios were increased to 4.0% and 5.5%, respectively, from January 1, 2014 and increased further to 4.5% and 6.0%, respectively, from January 1, 2015. Such requirements are in addition to the pre-existing requirement for a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8.0%, which remains unchanged. The amended regulations also require an additional capital conservation buffer of 0.625% starting in 2016, with such buffer to increase in stages to 2.5% by 2019, as well as a potential counter-cyclical capital buffer of up to 2.5% in 2016 and 1.25% in 2017, which is determined on a quarterly basis by the FSC. Furthermore, the Issuer was designated as one of five domestic systemically important banks for 2016 by the FSC and was subject to an additional capital requirement of 0.25% in 2016. In December 2016, the Issuer was designated as a domestic systematically important bank for 2017, which would subject the Issuer to an additional capital requirement of 0.50% in 2017, if deemed necessary, with such potential requirement to increase in stages to 1.0% by 2019.

Under the Detailed Regulation on the Supervision of the Banking Business, the following risk-weight ratios must be applied by Korean banks in respect of home mortgage loans:

(1) for those banks which adopted a standardised approach for calculating credit risk capital requirements, a risk-weight ratio of 35% (only in the case where the loan is fully secured by a first ranking mortgage) and, with respect to high-risk home mortgage loans, 50% or 70%; and

(2) for those banks which adopted an internal ratings-based approach for calculating credit risk capital requirements, a risk-weight ratio calculated with reference to the probability of default, loss given default and exposure at default, each as defined under the Detailed Regulation on the Supervision of the Banking Business.

Liquidity

All banks are required to ensure adequate liquidity by matching the maturities of their assets and liabilities in accordance with the Regulation on the Supervision of the Banking Business. Banks may not invest an amount exceeding 100% of their Tier I and Tier II capital (less any capital deductions) in equity securities and certain other securities with a redemption period of over three years. This stipulation does not apply to Government bonds, monetary stabilisation bonds issued by the BOK or debentures and stocks referred to in items 1 and 2, respectively, of paragraph (6) of Article 11 of the Act on the Improvement of the Structure of the Financial Industry. The FSC uses the liquidity coverage ratio (described below) as the principal liquidity risk management measure, and currently requires each Korean bank to:

- maintain a liquidity coverage ratio (defined as the ratio of highly liquid assets to total net cash outflows over a one-month period) of not less than 90% from January 1, 2017 until December 31, 2017, with such minimum liquidity coverage ratio to increase in increments of 5% per annum to 100% by 2019;

- maintain a foreign currency liquidity coverage ratio of not less than 60% from January 1, 2017 until December 31, 2017, with such minimum foreign currency liquidity coverage ratio to increase in increments of 10% per annum to 80% by 2019; provided, however, that the foreign currency liquidity ratio (defined as the ratio of foreign currency assets due within three months to foreign currency liabilities due within three months) would apply if the amount of foreign currency assets and the ratio of foreign currency liabilities to total liabilities are less than the respective amount and ratio specified under the Bank Act and the regulations thereunder; and

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

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

- 7% of average balances for Won currency demand deposits outstanding;

- 0% of average balances for Won currency employee asset establishment savings deposits, employee long-term savings deposits, employee house purchase savings deposits, long-term house purchase savings deposits, household long-term savings deposits and employee preferential savings deposits outstanding (with respect to employee-related deposits, only if such deposits were made prior to February 28, 2013); and

- 2% of average balances for Won currency time deposits, instalment savings deposits, mutual instalments, housing instalments and certificates of deposit outstanding.

For foreign currency deposit liabilities, a 2% minimum reserve ratio is applied to time deposits with a maturity of one month or longer, certificates of deposit with a maturity of 30 days or longer and savings deposits with a maturity of six months or longer and a 7% minimum reserve ratio is applied to other deposits. A 1% minimum reserve ratio applies to deposits in offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks as well as foreign currency certificates of deposit held by account holders of such offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks.

Furthermore, under the Regulation on the Supervision of the Banking Business, the Issuer is required to maintain a minimum "mid- to long-term foreign exchange funding ratio" of 100%. "Mid- to long-term foreign exchange funding ratio" refers to the ratio of (1) the total outstanding amount of foreign exchange borrowing with a maturity of more than one year to (2) the total outstanding amount of foreign exchange lending with a maturity of one year or more.

Financial Exposure to Any Individual Customer and Major Shareholder

Under the Bank Act, subject to certain exceptions, the sum of large exposures by a bank – in other words, the sum of its credits to single individuals, juridical persons or business groups that exceed 10% of the sum of Tier I and Tier II capital (less any capital deductions) – generally must not exceed five times the sum of Tier I and Tier II capital (less any capital deductions). In addition, subject to certain exceptions, banks generally may not extend credit (including loans, guarantees, purchases of securities (only in the nature of a credit) and any other transactions that directly or indirectly create credit risk) in excess of 20% of the sum of Tier I and Tier II capital (less any capital deductions) to a single individual or juridical person, or grant credit in excess of 25% of the sum of Tier I and Tier II capital (less any capital deductions) to a single group of companies as defined in the Monopoly Regulations and Fair Trade Act.

The Bank Act imposes restrictions on the extension of credit by banks to a major shareholder. A "major shareholder" is defined as:

- a shareholder holding (together with persons who have a special relationship with such shareholder) in excess of 10% (or 15% in the case of regional banks) in the aggregate of the bank's total issued and outstanding voting shares; or
- a shareholder holding (together with persons who have a special relationship with such shareholder) in excess of 4% in the aggregate of the bank's (excluding regional banks) total issued and outstanding voting shares of a bank (excluding shares subject to the shareholding restrictions on "non-financial business group companies" as described below), where such shareholder is the largest shareholder or has actual control over the major business affairs of the bank through, for example, appointment and dismissal of the officers pursuant to the Enforcement Decree of the Bank Act. Non-financial business group companies primarily consist of: (i) any single shareholding group whose non-financial company assets comprise no less than 25% of its aggregate net assets; (ii) any single shareholding group whose non-financial company assets comprise no less than ₩2 trillion in aggregate; or (iii) any mutual fund of which any single shareholding group identified in (i) or (ii) above, owns more than 4% of the total issued and outstanding shares.

Banks may not extend credits to a major shareholder (together with persons who have a special relationship with such shareholder) in an amount greater than the lesser of (x) 25% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) and (y) the relevant major shareholders' shareholding ratio multiplied by the sum of the bank's Tier I and Tier II capital (less any capital deductions). In addition, the total sum of credits granted to all major shareholders must not exceed 25% of the bank's Tier I and Tier II capital (less any capital deductions).

Interest Rates

Korean banks generally depend on deposits as their primary funding source. Under the Act on Registration of Credit Business and Protection of Finance Users, last amended on March 3, 2016, interest rates on loans made by registered banks in Korea may not exceed 27.9% per annum. Such restriction on interest rates is scheduled to expire on December 31, 2018.

Lending to SMEs

In order to obtain funding from the BOK at concessionary rates for their loans extended to SME, banks are required to allocate a certain minimum percentage of any quarterly increase in their Won currency lending to SMEs. Currently, this minimum percentage is 45% in the case of nationwide banks and 60% in the case of regional banks. If a bank fails to comply with this requirement, the BOK may:

- require the bank to prepay all or a portion of funds provided to that bank in support of loans to SMEs; or
- lower the bank's credit limit.

Disclosure of Management Performance

For the purpose of protecting depositors and investors in commercial banks, the FSC requires commercial banks to publicly disclose certain material matters, including:

- financial condition and profit and loss of the bank and its subsidiaries;
- fund raising by the bank and the appropriation of such funds;
- any sanctions levied on the bank under the Bank Act or any corrective measures or sanctions under the Law on Improvement of Structure of Financial Industry; and

- except as may otherwise have been disclosed by a bank or its financial holding company listed on the KRX KOSPI Market in accordance with the FSCMA, occurrence of any of the following events or any other event as prescribed by the applicable regulations:
  - (i) loans bearing no profit made to a single business group in an amount exceeding 10% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month (where the loan exposure to that borrower is calculated pursuant to the criteria under the Detailed Regulation on the Supervision of the Banking Business), unless the loan exposure to that group is not more than ₩4 billion; and
  - (ii) any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month, unless the loss is not more than ₩1 billion.

Restrictions on Lending to Affiliates, Employees and Officers

Pursuant to the Bank Act, commercial banks may not provide:

- loans directly or indirectly secured by a pledge of a bank's own shares;
- loans directly or indirectly to enable a natural or juridical person to buy the bank's own shares;
- loans to any of the bank's officers or employees, other than *de minimis* loans of up to (i) ₩20 million in the case of a general loan, (ii) ₩50 million in the case of a general loan plus a housing loan, or (iii) ₩60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions;
- credit (including loans) secured by a pledge of shares of a subsidiary corporation of the bank or to enable a natural or juridical person to buy shares of a subsidiary corporation of the bank; or
- loans to any officers or employees of a subsidiary corporation of the bank, other than general loans of up to ₩20 million or general and housing loans of up to ₩50 million in the aggregate.

Regulations Relating to Retail Household Loans

The FSC has implemented a number of changes in recent years to the regulations relating to retail household lending by banks. Under the currently applicable regulations:

- as to loans secured by a collateral of housing (including apartments) located nationwide, the loan-to-value ratio (the aggregate principal amount of loans secured by such collateral over the appraised value of the collateral) should not exceed 60% (other than loans secured by collateral of housing (regardless of housing type or location) to be amortised over a period of ten years, for which the loan-to-value ratio should not exceed 70% as described below);
- as to loans secured by collateral of housing (including apartments) located in areas of excessive investment or housing (excluding apartments) located in areas of high speculation, in each case, as designated by the Government, (i) the loan-to-value ratio for loans with a maturity of not more than three years should not exceed 50% and (ii) the loan-to-value ratio for loans with a maturity of more than three years should not exceed 60%;
- as to loans secured by apartments located in areas of high speculation as designated by the Government, (i) the loan-to-value ratio for loans with a maturity of not more than ten years should not exceed 40%; and (ii) the loan-to-value ratio for loans with a maturity of more than ten years should not exceed (a) 40%, if the price of such apartment is over ₩600 million, and (b) 60%, if the price of such apartment is ₩600 million or lower;
- as to loans secured by collateral of housing (regardless of housing type or location) to be amortised over a period of ten years or more, further requirements relating to which are set forth in the Regulation on the Supervision of the Banking Business, the loan-to-value ratio should not exceed 70%;
- as to loans secured by apartments with appraisal value of more than ₩600 million in areas of high speculation as designated by the Government or certain metropolitan areas designated as areas of excessive investment by the Government, the borrower's debt-to-income ratio (calculated as (i) the

aggregate annual total payment amount of (x) the principal of and interest on loans secured by such apartment(s) and (y) the interest on other debts of the borrower over (ii) the borrower's annual income) should not exceed 40%;

- as to apartments located in areas of high speculation as designated by the Government, a borrower is permitted to have only one new loan secured by such apartment;
- where a borrower has two or more loans secured by apartments located in areas of high speculation as designated by the Government, the loan with the earliest maturity date must be repaid first and the number of loans must be eventually reduced to one; and
- in the case of a borrower (i) whose spouse already has a loan secured by housing or (ii) who is single and under 30 years old, the debt-to-income ratio of the borrower in respect of loans secured by apartment(s) located in areas of high speculation as designated by the Government should not exceed 40%.

Restrictions on Investment in Property

A bank may not invest in securities set forth below in excess of 100% of the sum of the bank's Tier I and Tier II capital (less any capital deductions):

- debt securities (within the meaning of paragraph (3) of Article 4 of the FSCMA) the maturity of which exceeds three years, but excluding Government bonds, monetary stabilisation bonds issued by the BOK and bonds within the meaning of item 2, paragraph (6) of Article 11 of the Act on the Improvement of the Structure of the Financial Industry;
- equity securities, but excluding securities within the meaning of item 1, paragraph (6) of Article 11 of the Act on the Improvement of the Structure of the Financial Industry;
- derivatives linked securities (within the meaning of paragraph (7) of Article 4 of the FSCMA) the maturity of which exceeds three years; and
- beneficiary certificates, investment contracts and depositary receipts (within the meaning of paragraph (2) of Article 4 of the FSCMA) the maturity of which exceeds three years.

A bank may possess real estate property only to the extent necessary for the conduct of its business. The aggregate value of such property may not exceed 60% of the sum of the bank's Tier I and Tier II capital (less any capital deductions). Any property that a bank acquires by exercising its rights as a secured party, or which a bank is prohibited from acquiring under the Bank Act, must be disposed of within three years, unless specified otherwise by the regulations thereunder.

Restrictions on Shareholdings in Other Companies

Under the Bank Act, a bank may not own more than 15% of shares outstanding with voting rights of another corporation, except where, among other reasons:

- that corporation engages in a category of financial businesses set forth by the FSC; or
- the acquisition of shares by the bank is necessary for the corporate restructuring of such corporation and is approved by the FSC.

In the above cases, the total investment in corporations in which the bank owns more than 15% of the outstanding shares with voting rights may not exceed (i) 15% of the sum of Tier I and Tier II capital (less any capital deductions) or (ii) 30% of the sum of Tier I and Tier II capital (less any capital deductions) where the acquisition satisfies the requirements determined by the FSC.

The Bank Act provides that a bank using its bank accounts and its trust accounts is not permitted to acquire the shares issued by the major shareholder of such bank in excess of an amount equal to 1% of the sum of Tier I and Tier II capital (less any capital deductions).

Restrictions on Bank Ownership

Under the Bank Act, a single shareholder and persons who have a special relationship with that shareholder generally may acquire beneficial ownership of no more than 10% of a nationwide bank's total issued and outstanding shares with voting rights and no more than 15% of a regional bank's total issued and outstanding shares with voting rights. The Government, the KDIC and bank holding companies qualifying under the Financial Holding Company Act are not subject to this limit. However, pursuant to an amendment to the Bank Act which became effective on February 14, 2014, non-financial business group companies may not acquire beneficial ownership of shares of a nationwide bank in excess of 4% (or 15% in the case of a regional bank) of that bank's outstanding voting shares, unless they satisfy certain requirements set forth by the Enforcement Decree of the Bank Act, obtain the approval of the FSC and agree not to exercise voting rights in respect of shares in excess of the 4% limit (or the 15% limit in the case of a regional bank), in which case they may acquire beneficial ownership of up to 10% of a nationwide bank's outstanding voting shares. Such amendment grants an exception for non-financial business group companies which, at the time of the enactment of the amended provisions, held more than 4% of the shares of a bank.

"Non-financial business group companies" as defined under the Bank Act include:

(1) any same shareholder group with aggregate net assets of all non-financial business companies belonging to such group of not less than 25% of the aggregate net assets of all members of such group;

(2) any same shareholder group with aggregate assets of all non-financial business companies belonging to such group of not less than ₩2 trillion;

(3) any mutual fund in which a same shareholder group identified in item (1) or (2) above beneficially owns and/or exercises the voting rights of more than 4% of the total issued and outstanding voting shares of such mutual fund;

(4) any private equity fund with (a) a person falling under any of items (1) through (3) above as a limited partner holding not less than 10% of the total amount of contributions to the private equity fund, or (b) a person falling under any of items (1) through (3) above as a general partner, or (c) the total equity of the private equity fund acquired by each affiliate belonging to several enterprise groups subject to the limitation on mutual investment being 30% or more of the total amount of contributions to the private equity fund; or

(5) any investment purpose company in which a private equity fund falling under item (4) above acquires or holds shares in excess of 4% of the shares or equity of such company or exercises de facto control over significant managerial matters of such company through appointment or dismissal of executives or in any other manner.

In addition, if a foreign investor, as defined in the Foreign Investment Promotion Act, owns in excess of 4% of a nationwide bank's outstanding voting shares, non-financial business group companies may acquire beneficial ownership of up to 10% (or 15% in the case of a regional bank) of that bank's outstanding voting shares, and in excess of 10% (or 15% in the case of a regional bank), 25% or 33% of that bank's outstanding voting shares with the approval of the FSC in each instance, up to the number of shares owned by the foreign investor. Any other person (whether a Korean national or a foreign investor), with the exception of non-financial business group companies described above, may acquire no more than 10% of a nationwide bank's total voting shares issued and outstanding, unless they obtain approval from the FSC in each instance where the total holding will exceed 10% (or 15% in the case of regional banks), 25% or 33% of the bank's total voting shares issued and outstanding provided that, in addition to the foregoing threshold shareholding ratios, the FSC may, at its discretion, designate a separate and additional threshold shareholding ratio.

Deposit Insurance System

The Depositor Protection Act provides insurance for certain deposits of banks in Korea through a deposit insurance system. Under the Depositor Protection Act, all banks governed by the Bank Act are required to pay an insurance premium to the KDIC on a quarterly basis and the rate is determined under the Enforcement Decree to the Depositor Protection Act. If the KDIC makes a payment on an insured amount, it will acquire the depositors' claims with respect to that payment amount. The KDIC insures a maximum of ₩50 million per individual for deposits and interest in a single financial institution, regardless of when the deposits were made and the size of the deposits.

Laws and Regulations Governing Other Business Activities

A bank must register with the Ministry of Strategy and Finance to enter the foreign exchange business, which is governed by the Foreign Exchange Transaction Act of Korea. A bank must obtain the permission of the FSC to enter the securities business, which is governed by regulations under the FSCMA. Under these laws, a bank may engage in the foreign exchange business, securities repurchase business, governmental/public bond underwriting business and governmental bond dealing business.

Trust Business

A bank must obtain approval from the FSC to engage in trust businesses. The Trust Act and the FSCMA govern the trust activities of banks, and they are subject to various legal and accounting procedures and requirements, including the following:

- under the Trust Act, assets accepted in trust by a bank in Korea must be segregated from other assets in the accounts of that bank; and
- depositors and other general creditors cannot obtain or assert claims against the assets comprising the trust accounts in the event the bank is liquidated or wound-up.

Under the FSCMA, a bank with a trust business licence (such as the Issuer) is permitted to offer both specified money trust account products and unspecified money trust account products.

TAXATION

Korean Taxation

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

The taxation of non-resident individuals and non-Korean corporations (**Non-Residents**) generally depends on whether they have a "Permanent Establishment" (as defined under Korean law and applicable tax treaty) in Korea to which the relevant Korean source income is attributable or with which such relevant Korean source income is effectively connected. Non-Residents without such a Permanent Establishment in Korea are taxed in the manner described below. Non-Residents with such Permanent Establishment are taxed in accordance with different rules.

Income Tax and Corporation Tax On Interest

Interest on the Notes paid to Non-Residents (excluding payments to their Permanent Establishment in Korea) is exempt from income tax and corporation tax (whether payable by withholding or otherwise) pursuant to the Special Tax Treatment Control Law (the **STTCL**), subject to the tax consequences with respect to Index Linked Notes set out in the applicable Pricing Supplement, so far as the Notes are "foreign currency denominated bonds" under the STTCL and the issuance of the Notes is deemed to be an overseas issuance under the STTCL. The term "foreign currency denominated bonds" in this context is not defined under the STTCL. In this regard, the Korean tax authority issued a ruling on September 1, 1990 to the effect that "Notes Issuance Facility, USCP, Euro CP and Banker's Acceptance, etc." are not treated as the "foreign currency denominated bonds."

If not exempt under STTCL, the rate of income tax or corporation tax applicable to interest or any premium on the Notes, for a Non-Resident without a Permanent Establishment in Korea, is currently 14.0%. In addition, a tax surcharge, called a local income tax is imposed at the rate of 10.0% of the income tax or corporation tax (raising the total tax rate to 15.4%).

The tax is withheld by the payer of the interest.

The tax rates may be reduced by applicable tax treaty, convention or agreement between Korea and the country of the recipient of the interest. The relevant tax treaties are discussed below.

Index Linked Notes

A detailed description of the tax considerations relevant to Index Linked Notes will be provided in the applicable Pricing Supplement.

Capital Gains Tax

The Korean tax laws currently exclude from Korean taxation gains made by a Non-Resident without a Permanent Establishment in Korea from the sale of the Notes to a Non-Resident (other than to its Permanent Establishment in Korea). In addition, capital gains earned by a Non-Resident with or without a Permanent Establishment from the transfer outside Korea of the Notes are currently exempt from taxation by virtue of STTCL, provided that the issuance of the Notes is deemed to be an overseas issuance.

In the absence of an applicable tax treaty or any other special tax laws reducing or eliminating the capital gains tax, the applicable rate of tax is the lower of 11.0% of the gross realisation proceeds (the **Gross Realisation Proceeds**) and (subject to the production of satisfactory evidence of the acquisition cost and certain direct transaction costs of the relevant Notes) 22.0% of the gain made. The gain is calculated as the Gross Realisation Proceeds less the acquisition cost and certain direct transaction costs. If such evidence shows that no gain (or a loss) was made on the sale no Korean tax is payable. There is no provision under the relevant Korean law for offsetting gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of securities of Korean companies.

The purchaser or any other designated withholding agent of Notes is obliged under Korean law to withhold the applicable amount of Korean tax and make payment thereof to the relevant Korean tax authority. Unless the seller can claim the benefit of an exemption from the tax under an applicable tax treaty or in the absence of the seller producing satisfactory evidence of his acquisition cost and certain direct transaction costs in relation to the Notes being sold, the purchaser or such withholding agent must withhold an amount equal to 11.0% of the Gross Realisation Proceeds. Any amounts withheld by the purchaser or such withholding agent must be paid to the relevant Korean tax authority no later than the 10th day of the month following the month in which the sale of the relevant Notes occurred. Failure to transmit the withheld tax to the Korean tax authorities in time technically subjects the purchaser or the withholding agent to penalties under Korean tax laws and a Non-Resident who is liable for payment of any Korean tax on gains, either as a seller of Notes or as a purchaser or the withholding agent who is obliged to withhold such tax, is subject to the Korean tax authorities seeking enforcement through attachment of, or other legal proceedings against, payments due to it from its Korean investments and to enforcement against the assets or revenues of any of the Non-Resident's branch or representative offices in Korea.

Inheritance Tax and Gift Tax

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of his death he was domiciled in Korea or resided in Korea for at least one year immediately prior to his 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 vary according to the identity of the parties involved.

Under the 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.

Stamp Duty and Securities Transaction Tax

No stamp, issue or registration duties will be payable in Korea by the Noteholders in connection with the issue of the Notes. A securities transaction tax will not be imposed on the transfer of the Notes.

Tax Treaties

At the date of this Offering Circular, Korea has tax treaties with *inter alia* Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America where under the rate of withholding tax on interest is reduced, generally to between 5% and 16.5% (including local income tax), and the tax on capital gains is often eliminated.

Each Noteholder should enquire for himself whether he is entitled to the benefit of a tax treaty with respect to this transaction. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments to file with the Issuer a certificate as to his residence. In the absence of sufficient proof, the Issuer must undertake to withhold taxes in accordance with the above discussion.

In order to claim the benefit of a tax rate reduction or tax exemption available under the applicable tax treaties, a Non-Resident holder must submit to the payer of such Korean-sourced income an application (for reduced withholding tax rate, "application for entitlement to reduced tax rate" and in the case of exemption from withholding tax, "application for 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 (together with the applicable BO Application and certificate of the non-resident holder's tax residence in case of exemption from withholding tax), to the withholding agent prior to the payment date of such income. In the case of 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.

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

U.S. Taxation

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a holder or a beneficial owner of a Registered Note that is a citizen or resident of the United States or a domestic corporation or that otherwise is subject to U.S. federal income taxation on a net income basis in respect of such Note (a **U.S. Holder**). This summary is based on laws, regulations, rulings and decisions now in effect, all of which are subject to change. This summary deals only with U.S. Holders that will hold or beneficially own Registered Notes as capital assets, and does not address tax considerations applicable to investors that may be subject to special tax rules, such as banks, tax-exempt entities, insurance companies, regulated investment companies, dealers in securities or currencies, traders in securities electing to mark to market, entities taxed as partnerships for U.S. federal income tax purposes or partners therein, persons that will hold such Notes as a position in a "straddle" or conversion transaction, or as part of a "synthetic security" or other integrated financial transaction, U.S. expatriates, nonresident alien individuals present in the United States for more than 182 days in a taxable year, or persons that have a "functional currency" other than the U.S. dollar. Any special U.S. federal income tax considerations relevant to a particular issue of Registered Notes, including any Index Linked Notes, Dual Currency Notes or Subordinated Notes, will be provided in the applicable Pricing Supplement.

This summary addresses only U.S. federal income tax consequences, and does not address consequences arising under state, local, or foreign tax laws, the alternative minimum tax or the Medicare tax on net investment income. Investors should consult their own tax advisors in determining the tax consequences to them of holding Registered Notes under such tax laws, as well as the application to their particular situation of the U.S. federal income tax considerations discussed below.

Payments of Interest

Payments of "qualified stated interest" (as defined below under "*—Original Issue Discount*") on a Registered Note will be taxable to a U.S. Holder as ordinary interest income at the time that such payments are accrued or are received (in accordance with the U.S. Holder's method of tax accounting). If such payments of interest are made with respect to a Registered Note that is denominated in a single currency other than the U.S. dollar (a **Foreign Currency Note**), the amount of interest income realised by a U.S. Holder that uses the cash method of tax accounting will be the U.S. dollar value of the Specified Currency payment based on the exchange rate in effect on the date of receipt regardless of whether the payment is in fact converted into U.S. dollars. A U.S. Holder that uses the accrual method of accounting for tax purposes will accrue interest income on such Note in the relevant foreign currency and translate the amount accrued into U.S. dollars based on the average exchange rate in effect during the interest accrual period (or portion thereof within the U.S. Holder's taxable year), or, at the accrual basis U.S. Holder's election, at the spot rate of exchange on the last day of the accrual period (or the last day of the taxable year within such accrual period if the accrual period spans more than one taxable year), or at the spot rate of exchange on the date of receipt, if such date is within five business days of the last day of the accrual period.

A U.S. Holder that makes such election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the U.S. Internal Revenue Service (**IRS**). A U.S. Holder that uses the accrual method of accounting for tax purposes will recognise foreign currency gain or loss, as the case may be, on the receipt of an interest payment made with respect to a Foreign Currency Note if the exchange rate in effect on the date the payment is received differs from the rate applicable to a previous accrual of that interest income. Amounts attributable to pre-issuance accrued interest will generally not be includable in income, except to the extent of foreign currency gain or loss attributable to any changes in exchange rates during the period between the date the U.S. Holder acquired the Note and the first Interest Payment Date. This foreign currency gain or loss will be treated as ordinary income or loss but generally will not be treated as an adjustment to interest income received on such Note.

Effect of Korean Withholding Taxes

As discussed in "*Taxation—Korean Taxation*," under current law payments of interest and original issue discount (**OID**) on the Registered Notes to non-Korean investors may be subject to Korean withholding taxes. As discussed under "*Terms and Conditions of the Notes– Taxation*", the Issuer may be liable for the payment of additional amounts to U.S. Holders so that U.S. Holders receive the same amounts they would have received had no Korean withholding taxes been imposed. For U.S. federal income tax purposes, U.S. Holders would be treated as having actually received the amount of Korean taxes withheld by the Issuer with respect to a Registered Note (including any amounts withheld in respect of additional amounts paid to offset such withholding), and as then having actually paid over the withheld taxes to the Korean taxing authorities. As a result, the amount of interest income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of interest or OID may be greater than the amount of cash actually received (or receivable) by the U.S. Holder from the Issuer with respect to the payment.

Subject to certain limitations, a U.S. Holder generally will be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for Korean income taxes withheld by the Issuer. Interest generally will constitute "passive category income" for purposes of the foreign tax credit. The rules governing foreign tax credits are complex. Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of Korean withholding taxes.

Purchase, Sale and Retirement of Registered Notes

A U.S. Holder's adjusted tax basis in a Registered Note generally will equal the cost of such Note to such holder, increased by any amounts includible in income by the holder as OID and market discount and reduced by any amortised premium (each as described below) and any payments other than payments of qualified stated interest made on such Note. In the case of a Foreign Currency Note, the cost of such Note to a U.S. Holder will be the U.S. dollar value of the foreign currency purchase price on the date of purchase. In the case of a Foreign Currency Note that is traded on an established securities market, a cash basis U.S. Holder (and, if it so elects, an accrual basis U.S. Holder) will determine the U.S. dollar value of the cost of such Note by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. The amount of any subsequent adjustments to a U.S. Holder's adjusted tax basis in a Registered Note in respect of OID, market discount and premium denominated in a Specified Currency will be determined in the manner described under "*—Original Issue Discount*" and "*—Premium and Market Discount*" below. The conversion of U.S. dollars to a Specified Currency and the immediate use of the Specified Currency to purchase a Foreign Currency Note generally will not result in taxable gain or loss for a U.S. Holder.

Upon the sale, exchange or retirement of a Registered Note, a U.S. Holder generally will recognise gain or loss equal to the difference between the amount realised on the sale, exchange or retirement (less any amount attributable to accrued qualified stated interest, which will be taxable as such) and the U.S. Holder's adjusted tax basis in such Note. If a U.S. Holder receives a currency other than the U.S. dollar in respect of the sale, exchange or retirement of a Registered Note, the amount realised will be the U.S. dollar value of the Specified Currency received calculated at the exchange rate in effect on the date of such sale, exchange or retirement. In the case of a Foreign Currency Note that is traded on an established securities market, a cash basis U.S. Holder, and if it so elects, an accrual basis U.S. Holder, will determine the U.S. dollar value of the amount realised by translating such amount at the spot rate on the settlement date of the sale. The election available to accrual basis U.S. Holders in respect of the purchase and sale of Foreign Currency Notes traded on an established securities market, discussed above, must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS.

Except as discussed below with respect to market discount, Short-Term Notes (as defined below) and foreign currency gain or loss, gain or loss recognised by a U.S. Holder generally will capital gain or loss and will be long–term capital gain or loss if the U.S. Holder has held such Note for more than one year at the time of disposition. Long-term capital gains recognised by an individual U.S. Holder generally are subject to tax at a lower rate than short-term capital gains or ordinary income. The deduction of capital losses is subject to limitations.

Gain or loss recognised by a U.S. Holder on the sale, exchange or retirement of a Foreign Currency Note generally will be treated as ordinary income or loss to the extent that the gain or loss is attributable to changes in exchange rates during the period in which the U.S. Holder held such Note. This foreign currency gain or loss will not be treated as an adjustment to interest income received on such Notes.

Original Issue Discount

If the Issuer issues Registered Notes at a discount from their stated redemption price at maturity (as defined below), and the discount is equal to or more than one-fourth of one percent (0.25%) of the stated redemption price at maturity of such Notes, multiplied by the number of full years to their maturity from the issue date, such Notes will be **Original Issue Discount Notes**. The difference between the issue price and the stated redemption price at maturity of such Notes will be the OID. The **issue price** of such Notes will be the first price at which a substantial amount of such Notes are sold to the public (*i.e.*, excluding sales of such Notes to underwriters, placement agents, wholesalers, or similar persons). The **stated redemption price at maturity** of such Notes will include all payments under such Notes other than payments of qualified stated interest. The term **qualified stated interest** generally means stated interest that is unconditionally payable in cash or property (other than debt instruments issued by the Issuer) at least annually during the entire term of such Note at a single fixed interest rate or, subject to certain conditions, based on one or more interest indices.

U.S. Holders of Original Issue Discount Notes generally will be subject to the special tax accounting rules for obligations issued with OID provided by the Internal Revenue Code of 1986, as amended, and certain regulations promulgated thereunder (the **OID Regulations**). U.S. Holders of such Notes should be aware that, as described in greater detail below, they generally must include OID in ordinary gross income for U.S. federal income tax purposes as it accrues, in advance of the receipt of cash attributable to that income.

In general, each U.S. Holder of an Original Issue Discount Note, whether such U.S. Holder uses the cash or the accrual method of tax accounting, will be required to include in ordinary gross income the sum of the "daily portions" of OID on such Note for all days during the taxable year that the U.S. Holder owns such Note. The daily portions of OID on an Original Issue Discount Note are determined by allocating to each day in any accrual period a ratable portion of the OID allocable to that accrual period. Accrual periods may be any length and may vary in length over the term of an Original Issue Discount Note, *provided that* no accrual period is longer than one year and each scheduled payment of principal or interest occurs on either the final day or the first day of an accrual period. In the case of an initial holder, the amount of OID on an Original Issue Discount Note allocable to each accrual period is determined by (a) multiplying the "adjusted issue price" (as defined below) of the Original Issue Discount Note at the beginning of the accrual period by the yield to maturity of such Original Issue Discount Note (appropriately adjusted to reflect the length of the accrual period) and (b) subtracting from that product the amount (if any) of qualified stated interest allocable to that accrual period. The yield to maturity of such Note is the discount rate that causes the present value of all payments on such Note as of its original issue date to equal the issue price of such Note. The **adjusted issue price** of an Original Issue Discount Note at the beginning of any accrual period will generally be the sum of its issue price (generally including accrued interest, if any) and the amount of OID allocable to all prior accrual periods, reduced by the amount of all payments other than payments of qualified stated interest (if any) made with respect to such Note in all prior accrual periods. In the case of an Original Issue Discount Note that is a Floating Rate Note, both the "yield to maturity" and "qualified stated interest" will generally be determined for these purposes as though the Original Issue Discount Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to the interest payments on such Note on its date of issue or, in the case of certain Floating Rate Notes, the rate that reflects the yield that is reasonably expected for such Note. (Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index.) As a result of this "constant yield" method of including OID in income, the amounts includible in income by a U.S. Holder in respect of an Original Issue Discount Note denominated in U.S. dollars generally are lesser in the early years and greater in the later years than the amounts that would be includible on a straight-line basis.

A U.S. Holder generally may make an irrevocable election to include in its income its entire return on a Registered Note (*i.e.*, the excess of all remaining payments to be received on such Note, including payments of qualified stated interest, over the amount paid by such U.S. Holder for such Note) under the constant-yield method described above. For Registered Notes purchased at a premium or bearing market discount in the hands of the U.S. Holder, the U.S. Holder making such election will also be deemed to have made the election (discussed below in "*—Premium and Market Discount*") to amortise premium or to accrue market discount in income currently on a constant-yield basis.

In the case of an Original Issue Discount Note that is also a Foreign Currency Note, a U.S. Holder should determine the U.S. dollar amount includible in income as OID for each accrual period by (a) calculating the amount of OID allocable to each accrual period in the Specified Currency using the constant-yield method described above, and (b) translating the amount of the Specified Currency so derived at the average exchange rate in effect during that accrual period (or portion thereof within a U.S. Holder's taxable year) or, at the U.S. Holder's election (as described above under "*—Payments of Interest*"), at the spot rate of exchange on the last day of the accrual period (or the last day of the taxable year within such accrual period if the accrual period spans more than one taxable year), or at the spot rate of exchange on the date of receipt, if such date is within five business days of the last day of the accrual period. Because exchange rates may fluctuate, a U.S. Holder of an Original Issue Discount Note that is also a Foreign Currency Note may recognise a different amount of OID income in each accrual period than would the holder of an otherwise similar Original Issue Discount Note denominated in U.S. dollars. All payments on an Original Issue Discount Note (other than payments of qualified stated interest) will generally be viewed first as payments of previously-accrued OID (to the extent thereof), with payments attributed first to the earliest-accrued OID, and then as payments of principal. Upon the receipt of an amount attributable to OID (whether in connection with a payment of an amount that is not qualified stated interest or the sale or retirement of the Original Issue Discount Note), a U.S. Holder will recognise ordinary income or loss measured by the difference between the amount received (translated into U.S. dollars at the exchange rate in effect on the date of receipt or on the date of disposition of the Original Issue Discount Note, as the case may be) and the amount accrued (using the exchange rate applicable to such previous accrual).

A subsequent U.S. Holder of an Original Issue Discount Note that purchases such Note at a cost less than its remaining redemption amount (as defined below), or an initial U.S. Holder that purchases an Original Issue Discount Note at a price other than such Note's issue price, also generally will be required to include in gross income the daily portions of OID, calculated as described above. However, if the U.S. Holder acquires the Original Issue Discount Note at a price greater than its adjusted issue price, such U.S. Holder is required to reduce its periodic inclusions of OID income to reflect the premium paid over the adjusted issue price. The **remaining redemption amount** for such Note is the total of all future payments to be made on such Note other than payments of qualified stated interest.

Floating Rate Notes generally will be treated as "variable rate debt instruments" under the OID Regulations. Accordingly, the stated interest on a Floating Rate Note generally will be treated as "qualified stated interest" and such Note will not have OID solely as a result of the fact that it provides for interest at a variable rate. If a Floating Rate Note does not qualify as a "variable rate debt instrument," such Note will be subject to special rules (the **Contingent Payment Regulations**) that govern the tax treatment of debt obligations that provide for contingent payments (**Contingent Debt Obligations**). A detailed description of the tax considerations relevant to U.S. Holders of any such Notes will be provided in the applicable Pricing Supplement.

Certain of the Registered Notes may be subject to special redemption, repayment or interest rate reset features, as indicated in the applicable Pricing Supplement. Registered Notes containing such features, in particular Original Issue Discount Notes, may be subject to special rules that differ from the general rules discussed above. Purchasers of Registered Notes with such features should carefully examine the applicable Pricing Supplement and should consult their own tax advisors with respect to such Notes since the tax consequences with respect to such features, and especially with respect to OID, will depend, in part, on the particular terms of such purchased Notes.

If a Note provides for a scheduled Accrual Period that is longer than one year (for example, as a result of a long initial period on a Note with interest that is generally paid on an annual basis), then stated interest on the Note will not qualify as "qualified stated interest" under the applicable Treasury Regulations. As a result, the Note would be an Original Issue Discount Note. In that event, among other things, cash-method U.S. Holders will be required to accrue stated interest on the Note under the rules for OID described above, and all U.S. Holders will be required to accrue OID that would otherwise fall under the *de minimis* threshold.

Premium and Market Discount

A U.S. Holder of a Registered Note that purchases such Note at a cost greater than its remaining redemption amount (as defined in the third preceding paragraph) will be considered to have purchased the Registered Note at a premium, and may elect to amortise such premium (as an offset to interest income), using a constant-yield method, over the remaining term of such Note. Such election, once made, generally applies to all bonds held or subsequently acquired by the U.S. Holder on or after the first taxable year to which the election applies and may not be revoked without the consent of the IRS. A U.S. Holder that elects to amortise such premium must reduce its tax basis in a Registered Note by the amount of the premium amortised during its holding period. Original Issue Discount Notes purchased at a premium will not be subject to the OID rules described above. In the case of premium in respect of a Foreign Currency Note, a U.S. Holder should calculate the amortisation of such premium in the Specified Currency. Amortisation deductions attributable to a period reduce interest payments in respect of that period and therefore are translated into U.S. dollars at the exchange rate used by the U.S. Holder for such interest payments. Exchange gain or loss will be realised with respect to amortised bond premium on such Note based on the difference between the exchange rate on the date or dates such premium is recovered through interest payments on such Note and the exchange rate on the date on which the U.S. Holder acquired such Note. With respect to a U.S. Holder that does not elect to amortise bond premium, the amount of bond premium will be included in the U.S. Holder's tax basis when such Note matures or is disposed of by the U.S. Holder.

Therefore, a U.S. Holder that does not elect to amortise such premium and that holds such Note to maturity generally will be required to treat the premium as capital loss when such Note matures.

If a U.S. Holder of a Registered Note purchases such Note at a price that is lower than its remaining redemption amount, or in the case of an Original Issue Discount Note, a price that is lower than its adjusted issue price, by at least 0.25% of its remaining redemption amount, multiplied by the number of remaining whole years to maturity, such Note will be considered to have "market discount" in the hands of such U.S. Holder. In such case, gain realised by the U.S. Holder on the disposition of such Note generally will be treated as ordinary income to the extent of the market discount that accrued on such Note while held by such U.S. Holder. In addition, the U.S. Holder could be required to defer the deduction of a portion of the interest paid on any indebtedness incurred or maintained to purchase or carry such Note. In general terms, market discount on a Registered Note will be treated as accruing ratably over the term of such Note, or, at the election of the U.S. Holder, under a constant yield method. Market discount on a Foreign Currency Note will be accrued by a U.S. Holder in the Specified Currency. The amount includible in income by a U.S. Holder in respect of such accrued market discount will be the U.S. dollar value of the amount accrued, generally calculated at the exchange rate in effect on the date that such Note is disposed of by the U.S. Holder.

A U.S. Holder may elect to include market discount in income on a current basis as it accrues (on either a ratable or constant-yield basis), in lieu of treating a portion of any gain realised on a sale of a Registered Note as ordinary income. If a U.S. Holder elects to include market discount on a current basis, the interest deduction deferral rule described above will not apply. Any accrued market discount on a Foreign Currency Note that is currently includible in income will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Any such election, if made, applies to all market discount bonds acquired by the taxpayer on or after the first day of the first taxable year to which such election applies and is revocable only with the consent of the IRS.

Short-Term Notes

The rules set forth above will also generally apply to Registered Notes having maturities of not more than one year (**Short-Term Notes**), but with certain modifications.

First, the OID Regulations treat none of the interest on a Short-Term Note as qualified stated interest. Thus, all Short-Term Notes will be Original Issue Discount Notes. OID will be treated as accruing on a Short-Term Note ratably or, at the election of a U.S. Holder, under a constant yield method.

Second, a U.S. Holder of a Short-Term Note that uses the cash method of tax accounting and is not a bank, securities dealer, regulated investment company or common trust fund, and does not identify the

Short-Term Note as part of a hedging transaction, will generally not be required to include OID in income on a current basis. Such a U.S. Holder may not be allowed to deduct all of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry such Note until the Maturity of such Note or its earlier disposition in a taxable transaction. In addition, such a U.S. Holder will be required to treat any gain realised on a sale, exchange or retirement of such Note as ordinary income to the extent such gain does not exceed the OID accrued with respect to such Note during the period the U.S. Holder held such Note. Notwithstanding the foregoing, a cash-basis U.S. Holder of a Short-Term Note may elect to accrue OID into income on a current basis or to accrue the “acquisition discount” on the Note under the rules described below. If the U.S. Holder elects to accrue OID or acquisition discount, the limitation on the deductibility of interest described above will not apply.

A U.S. Holder using the accrual method of tax accounting and certain cash-basis U.S. Holders (including banks, securities dealers, regulated investment companies and common trust funds) generally will be required to include original issue discount on a Short-Term Note in income on a current basis. Alternatively, a U.S. Holder of a Short-Term Note can elect to accrue the “acquisition discount,” if any, with respect to such Note on a current basis. If such an election is made, the OID rules will not apply to the Note. Acquisition discount is the excess of the remaining redemption amount of the Notes at the time of acquisition over the purchase price. Acquisition discount will be treated as accruing ratably or, at the election of the U.S. Holder, under a constant-yield method based on daily compounding.

Finally, the market discount rules will not apply to a Short-Term Note.

Index Linked Notes and Other Notes Providing for Contingent Payments

The Contingent Payment Regulations, which govern the tax treatment of Contingent Debt Obligations, generally require accrual of interest income on a constant-yield basis in respect of such obligations at a yield determined at the time of their issuance, and may require adjustments to such accruals when any contingent payments are made. A detailed description of the tax considerations relevant to U.S. Holder of any Contingent Debt Obligations will be provided in the applicable Pricing Supplement.

Information Reporting and Backup Withholding

The Paying Agent will be required to file information returns with the **IRS** with respect to payments made to, and OID accrued in respect of, certain U.S. Holders of Registered Notes. In addition, certain U.S. Holders may be subject to backup withholding in respect of such payments if they do not provide their taxpayer identification numbers or certification of their exempt status to the Paying Agent or fail to comply with applicable certification requirements. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder’s U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the IRS.

Information with Respect to Foreign Financial Assets

Individual U.S. Holders that own “specified foreign financial assets” with an aggregate value in excess of US$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-United States financial institution, as well as securities issued by a non-United States issuer (which would include the Registered Notes) 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 Notes, including the application of the rules to their particular circumstances.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of U.S. law, commonly known as FATCA, holders and beneficial owners of the Notes may be required to provide a financial institution in the chain of payments on the Notes information and tax documentation regarding their identities, and in the case of a holder that is an entity, the identities of their direct and indirect owners, and this information may be reported to relevant tax authorities, including the IRS. Moreover, starting at the earliest on January 1, 2019, the Issuer, and other financial institutions through which payments are made, may be required to withhold **U.S. tax at a 30% rate on foreign passthru payments** (a term not yet defined) paid to an investor who does not provide information sufficient for the institution to determine whether the investor is a U.S. person or should otherwise be treated as holding a **United States account** of the institution, or to an investor that is, or holds the Notes directly or indirectly through, a non-U.S. financial institution that is not in compliance with FATCA. A number of jurisdictions (including Korea) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of these rules to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, is not clear at this time. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply to foreign passthru payments prior to January 1, 2019 and Notes that have a fixed term and are not treated as equity for U.S. federal income tax purposes issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. However, if additional Notes (as described under "*Terms and Conditions of the Notes—Further Issues*") that are not distinguishable from grandfathered Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including grandfathered Notes, as subject to withholding under FATCA. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, neither the Issuer nor any Paying Agent nor any other person will be required to pay additional amounts as a result of the withholding. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Book-Entry Systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a "banking organisation" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants (Participants) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (Indirect Participants).

Under the rules, regulations and procedures creating and affecting DTC and its operations (the Rules), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system (DTC Notes) as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes (Owners) have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each DTC Note (Beneficial Owner) is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct

Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*."

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Book-Entry Ownership of and Payments in Respect of DTC Notes

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Note will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian (Custodian) with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the

Registrar, the Principal Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have in an amended and restated programme agreement dated May 14, 2009 (as amended, supplemented and/or restated from time to time, the **Programme Agreement**) agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*" above. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Under U.K. laws and regulations stabilising activities may only be carried on by the Stabilising Manager named in the applicable Pricing Supplement and must end no later than the earlier of 30 days following the Issue Date of the relevant Tranche of Notes and 60 days following the date of the allotment of the relevant Tranche of Notes.

Certain Relationships

The Dealers and certain of their affiliates may have performed certain investment banking and advisory services for the Issuer or its affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with, and perform services for, the Issuer or its affiliates in the ordinary course of business. The Dealers and certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution.

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

Transfer Restrictions

As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.

Each purchaser of Registered Notes (other than a person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note) or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or vice versa, will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

(i) that either: (a) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or Subscription and Sale and Transfer and Selling Restrictions (b) it is an Institutional Accredited Investor which has delivered an IAI Investment Letter or (c) it is outside the United States and is not a U.S. person;

(ii) that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

(iii) that, unless it holds an interest in a Regulation S Global Note and either is a person located outside the United States or is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so, prior to the date which is one year after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Notes, only (a) to the Issuer or any affiliate thereof, (b) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (c) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. state securities laws;

(iv) it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraph (iv) above, if then applicable;

(v) that Notes initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Notes, that Notes offered to Institutional Accredited Investors will be in the form of Definitive IAI Registered Notes and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;

(vi) that the Notes, other than the Regulation S Global Notes, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS OR (2) IT IS AN INSTITUTIONAL "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN INSTITUTIONAL ACCREDITED INVESTOR); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE

UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).";

(vii) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Notes prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Notes), it will do so only (a)(i) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (b) in accordance with all applicable U.S. state securities laws; and it acknowledges that the Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART."; and

(viii) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Institutional Accredited Investors who purchase Registered Notes in definitive form offered and sold in the United States in reliance upon the exemption from registration provided by Regulation D of the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Notes will be issued in definitive registered form. See "*Form of the Notes*."

The IAI Investment Letter will state, among other things, the following:

(i) that the Institutional Accredited Investor has received a copy of the Offering Circular and such other information as it deems necessary in order to make its investment decision;

(ii) that the Institutional Accredited Investor understands that any subsequent transfer of the Notes is subject to certain restrictions and conditions set forth in the Offering Circular and the Notes (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes except in compliance with, such restrictions and conditions and the Securities Act;

(iii) that, in the normal course of its business, the Institutional Accredited Investor invests in or purchases securities similar to the Notes;

(iv) that the Institutional Accredited Investor is an Institutional Accredited Investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Notes, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts' investment for an indefinite period of time;

(v) that the Institutional Accredited Investor is acquiring the Notes purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of the Notes, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and

(vi) that, in the event that the Institutional Accredited Investor purchases Notes, it will acquire Notes having a minimum purchase price of at least US$500,000 (or the approximate equivalent in another Specified Currency).

No sale of Legended Notes in the United States to any one purchaser will be for less than US$100,000 (or its foreign currency equivalent) principal amount or, in the case of sales to Institutional Accredited Investors, US$500,000 (or its foreign currency equivalent) principal amount and no Legended Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least US$100,000 (or its foreign currency equivalent) or, in the case of sales to Institutional Accredited Investors, US$500,000 (or its foreign currency equivalent) principal amount of Registered Notes.

Selling Restrictions

United States

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

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Programme Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Notes are a part, as determined and certified to the Principal Paying Agent by such Dealer (or, in the case of an identifiable tranche of Notes sold to or through more than one Dealer, by each of such Dealers with respect to Notes of an identifiable tranche purchased by or through it, in which case the Principal Paying Agent shall notify such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Dealer to which it sells Notes during the distribution compliance period (other than resales pursuant to Rule 144A) a confirmation or other notice setting out the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. The Programme Agreement provides that the Dealers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of any identifiable tranche of Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of such tranche of Notes) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

This Offering Circular has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States and for the resale of the Notes in the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States or to any U.S. person, other than any qualified institutional buyer within the meaning of Rule 144A to whom an offer has been made directly by one of the Dealers or its U.S. broker-dealer affiliate. Distribution of this Offering Circular by any non-U.S. person outside the United States or by any qualified institutional buyer in the United States to any U.S. person or to any other person within the United States, other than any qualified institutional buyer and those persons, if any, retained to advise such non-U.S. person or qualified institutional buyer with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than any qualified institutional buyer and those persons, if any, retained to advise such non-U.S. person or qualified institutional buyer, is prohibited.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a **Non-exempt Offer**), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

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

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression **an offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression **Prospectus Directive** means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes having a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the **FSMA**) by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

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

Singapore

Each Dealer has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

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

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(c) 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;

(d) where no consideration is or will be given for the transfer;

(e) where the transfer is by operation of law;

(f) as specified in Section 276(7) of the SFA; or

(g) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Hong Kong

Each Dealer has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571 of Hong Kong) and any rules made under that Ordinance.

Korea

The Notes have not been and will not be registered under the FSCMA. Each Dealer has represented and agreed each further Dealer appointed under the Programme will be required to represent and agree that (i) the Notes have not been and will not be offered, delivered or sold directly or indirectly in Korea or to any resident of Korea (as defined in the Foreign Exchange Transaction Law) or to others for re-offering or resale directly or indirectly in Korea or to any resident of Korea, and that (ii) the Notes may not be transferred to any resident of Korea until the expiration of one year after the issuance of the Notes, in each case, except as otherwise permitted under applicable Korean laws and regulations.

Each Dealer has undertaken and each further Dealer appointed under the Programme will be required to undertake to ensure that any securities dealer to which it sells Notes confirms that it is purchasing such Notes as principal and agrees with such Dealer that it will comply with the restrictions described above.

Canada

Prospective Canadian investors are advised that the information contained within this Offering Circular, and additionally, the relevant final terms or any other offering material relating to the Notes has not been prepared with regard to matters that may be of particular concern to Canadian investors. Accordingly, prospective Canadian investors should consult with their own legal, financial and tax advisers concerning the information contained within this Offering Circular, the relevant final terms or any other offering material relating to the Notes and as to the suitability of an investment in the Notes in their particular circumstances.

The offer and sale of the Notes in Canada will only be made under exemptions from the requirement to file a prospectus with the Canadian securities regulators and will be made only by authorised dealer representatives that are properly registered under the laws of the relevant Canadian jurisdictions or, alternatively, that are entitled to rely on exemptions from the dealer registration requirements in the relevant Canadian jurisdictions.

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in NI 45-106 or subsection 73.3(1) of the *Securities Act* (Ontario), and that are permitted clients, as defined in National Instrument 31-103 R*egistration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Circular, the relevant final terms or any other offering material constituting an "offering memorandum" under applicable Canadian securities laws (including any amendment to any such documents) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* (**NI 33-105**), the Dealers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with an offering of Notes.

The Issuer hereby notifies prospective Canadian purchasers that: (a) it may be required to provide personal information pertaining to the purchaser as required to be disclosed in Schedule I of Form 45106F1 under NI 45-106 (including its name, address, telephone number and the aggregate purchase price of any Notes purchased) (**personal information**), which Form 45-106F1 may be required to be filed by the Issuer under NI 45-106, (b) such personal information may be delivered to the Ontario Securities Commission (the **OSC**) in accordance with NI 45-106, (c) such personal information is collected indirectly by the OSC under the authority granted to it under the securities legislation of Ontario, (d) such personal information is collected for the purposes of the administration and enforcement of the securities legislation of Ontario, and (e) the public official in Ontario who can answer questions about the OSC's indirect collection of such personal information is the Administrative Support Clerk at the OSC, Suite 1903, Box 55, 20 Queen Street West, Toronto, Ontario M5H 3S8, Telephone: (416) 5933684. Prospective Canadian purchasers that purchase Notes in this offering will be deemed to have authorised the indirect collection of the personal information by the OSC, and to have acknowledged and consented to its name, address, telephone number and other specified information, including the aggregate purchase price paid by the purchaser, being disclosed to other Canadian securities regulatory authorities, and to have acknowledged that such information may become available to the public in accordance with requirements of applicable Canadian laws.

Upon receipt of this Offering Circular, each Canadian purchaser hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the Notes described herein (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. Par la réception de cette prospectus de base, chaque acheteur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any other Dealer shall have any responsibility therefor.

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

Neither the Issuer nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other additional restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorisation

The establishment of the Programme was duly authorised by a resolution of the Board of Directors of the Issuer on December 28, 1995, and the most recent update to the Programme was authorised by the approval of the General Manager of the Treasury Department of the Issuer dated March 6, 2017. Each issue of Notes under the Programme will be authorised by the Board of Directors of the Issuer at the time of issue or at a meeting held annually to approve the issue of Notes to be issued in the following fiscal year.

Listing of Notes on the Singapore Stock Exchange

Approval in-principle has been granted for the listing and quotation of Notes that may be issued pursuant to the Programme and which are agreed, at or prior to the time of issue thereof, to be so listed on the Singapore Stock Exchange.

Documents Available

From the date hereof and so long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

(i) the constitutional documents (together with English translations) of the Issuer;

(ii) the audit reports and the audited consolidated and separate financial statements of the Issuer in respect of the financial years ended December 31, 2014, 2015 and 2016 (together with English translations);

(iii) the most recently published (if available) audited consolidated annual financial statements of the Issuer and the most recently published interim financial statements of the Issuer (together with English translations);

(iv) the Programme Agreement, the Agency Agreement, the Deed Poll, the Deed of Covenant, the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;

(v) a copy of this Offering Circular;

(vi) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Principal Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference; and

(vii) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Bearer Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. In addition, the Issuer may make an application for any Notes in registered form to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of Registered Notes, together with the relevant ISIN and common code, will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

Significant or Material Change

Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer and its subsidiaries since December 31, 2016 and there has been no material adverse change in the financial position or prospects of the Issuer and its subsidiaries since December 31, 2016.

Litigation

Save as disclosed in this Offering Circular, the Issuer nor any of its subsidiaries is or has been involved in any legal, arbitration, administrative or other proceedings, which might have or have had in the recent past (covering at least the previous 12 months preceding the date of this document) a significant effect on the financial position or the operations of the Issuer and its subsidiaries nor is the Issuer aware of any such proceedings pending or being threatened.

Independent Accountants

The Issuer's consolidated financial statements as of and for the years ended December 31, 2016 and 2015 and as of and for the years ended December 31, 2015 and 2014 have been audited by Samil PricewaterhouseCoopers, independent accountants, as stated in their reports included elsewhere in this Offering Circular.

INDEX TO FINANCIAL STATEMENTS

Independent Auditor’s Report

(English Translation of a Report Originally Issued in Korean)

To the Shareholder and Board of Directors of Kookmin Bank

We have audited the accompanying consolidated financial statements of Kookmin Bank and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean IFRS.

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

/s/ Samil PricewaterhouseCoopers
Seoul, Korea
March 8, 2017

This report is effective as of March 8, 2017, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Kookmin Bank and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2016 and 2015

(In millions of Korean won)	**Notes**		**2016**		**2015**
Assets					
Cash and due from financial institutions	4,6,7,36	₩	14,681,846	₩	14,562,990
Financial assets at fair value through profit or loss	4,6,8,12		7,956,232		6,487,617
Derivative financial assets	4,6,9		2,796,445		2,186,010
Loans	4,6,8,10,11		236,551,052		222,738,064
Financial investments	4,6,8,12		35,732,406		32,911,986
Investments in associates	13		367,976		670,139
Property and equipment	14		3,117,391		2,909,372
Investment property	14		372,880		413,179
Intangible assets	15		210,714		181,599
Current income tax assets	32		11,937		18,325
Deferred income tax assets	16,32		47,692		8,321
Assets held for sale	18		26,527		33,795
Other assets	4,6,17		5,193,272		7,156,510
Total assets		₩	307,066,370	₩	290,277,907
Liabilities					
Financial liabilities at fair value through profit or loss	4,6	₩	73,238	₩	69,465
Derivative financial liabilities	4,6,9		2,833,598		2,138,723
Deposits	4,6,19		235,736,034		224,333,507
Debts	4,6,20		15,934,409		14,291,815
Debentures	4,6,21		14,959,692		15,949,134
Provisions	22		425,284		450,398
Net defined benefit liabilities	23		71,167		55,669
Current income tax liabilities	32		5,357		7,121
Deferred income tax liabilities	16,32		19		165,273
Other liabilities	4,6,24,30		13,702,570		10,069,591
Total liabilities			283,741,368		267,530,696
Equity	25				
Capital stock			2,021,896		2,021,896
Capital surplus			5,219,704		5,219,704
Accumulated other comprehensive income	34		494,863		500,807
Retained earnings	33		15,588,539		15,004,804
(Provision of regulatory reserve for credit losses					
December 31, 2016 : ₩1,835,115 million					
December 31, 2015 : ₩1,867,761 million)					
(Amounts estimated to be appropriated(reversed)					
December 31, 2016 : ₩165,948 million					
December 31, 2015 : ₩(32,646) million)					
Equity attributable to Shareholder of the Parent company			23,325,002		22,747,211
Non-controlling interest equity			-		-
Total equity			23,325,002		22,747,211
Total liabilities and equity		₩	307,066,370	₩	290,277,907

The accompanying notes are an integral part of these consolidated financial statements.

Kookmin Bank and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2016 and 2015

(In millions of Korean won)	Notes	2016	2015
Interest income		₩ 7,894,156	₩ 8,388,382
Interest expense		(3,065,246)	(3,676,635)
Net interest income	26	4,828,910	4,711,747
Fee and commission income		1,310,382	1,372,054
Fee and commission expense		(222,531)	(215,681)
Net fee and commission income	27	1,087,851	1,156,373
Net gains on financial assets/liabilities at fair value through profit or loss	28	196,898	287,028
Net other operating expenses	29	(401,050)	(421,726)
General and administrative expenses	14,15,23,30,40	(4,268,949)	(3,811,821)
Operating profit before provision for credit losses		1,443,660	1,921,601
Provision for credit losses	11,17,22	(254,329)	(741,620)
Operating profit		1,189,331	1,179,981
Share of profit of associates	13	17,615	7,812
Net other non-operating income	31	49,311	193,436
Net non-operating profit		66,926	201,248
Profit before income tax expense		1,256,257	1,381,229
Income tax expense	32	(292,001)	(273,991)
Profit for the year		964,256	1,107,238
(Adjusted profit after provision of regulatory reserve for credit losses	25		
2016 : ₩798,308 million			
2015 : ₩1,139,884 million)			
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit liabilities	23	8,103	(14,494)
Items that may be reclassified subsequently to profit or loss:			
Currency translation adjustments		(5,484)	45,142
Losses on valuation of financial investments		(1,853)	(77,712)
Share of other comprehensive income(loss) of associates		(231)	2,536
Loss on hedging instruments of net investments in foreign operations		(6,816)	(25,476)
Gains on cash flow hedging instruments		337	-
	34	(5,944)	(70,004)
Total comprehensive income for the year		₩ 958,312	₩ 1,037,234
Profit attributable to:			
Shareholder of the parent company		964,256	1,107,238
Non-controlling interests		-	-
		₩ 964,256	₩ 1,107,238
Total comprehensive income for the year attributable to:			
Shareholder of the parent company		958,312	1,037,234
Non-controlling interests		-	-
		₩ 958,312	₩ 1,037,234

The accompanying notes are an integral part of these consolidated financial statements.

Kookmin Bank and Subsidiaries

Consolidated Statements of Changes in Equity

Years Ended December 31, 2016 and 2015

	Attributable to Shareholder of the Bank					
(In millions of Korean won)	**Capital Stock**	**Capital Surplus**	**Accumulated Other Comprehensive Income (loss)**	**Retained Earnings**	**Non-controlling interests**	**Total Equity**
Balance at January 1, 2015	₩ 2,021,896	₩ 5,219,704	₩ 570,811	₩ 14,128,062	₩ -	₩ 21,940,473
Comprehensive income for the year						
Profit for the year	-	-	-	1,107,238	-	1,107,238
Remeasurements of net defined benefit liabilities	-	-	(14,494)	-	-	(14,494)
Currency translation adjustments	-	-	45,142	-	-	45,142
Losses on valuation of financial investments	-	-	(77,712)	-	-	(77,712)
Gains on valuation of investments accounted for using the equity method	-	-	2,536	-	-	2,536
Losses on hedging instruments of a net investment in a foreign operation	-	-	(25,476)	-	-	(25,476)
Total comprehensive income for the year	-	-	(70,004)	1,107,238	-	1,037,234
Transactions with shareholder						
Dividends	-	-	-	(230,496)	-	(230,496)
Total transactions with shareholder	-	-	-	(230,496)	-	(230,496)
Balance at December 31, 2015	₩ 2,021,896	₩ 5,219,704	₩ 500,807	₩ 15,004,804	₩ -	₩ 22,747,211
Balance at January 1, 2016	₩ 2,021,896	₩ 5,219,704	₩ 500,807	₩ 15,004,804	₩ -	₩ 22,747,211
Comprehensive income for the year						
Profit for the year	-	-	-	964,256	-	964,256
Remeasurements of net defined benefit liabilities	-	-	8,103	-	-	8,103
Currency translation adjustments	-	-	(5,484)	-	-	(5,484)
Losses on valuation of financial investments	-	-	(1,853)	-	-	(1,853)
Share of other comprehensive income of associates	-	-	(231)	-	-	(231)
Losses on hedging instruments of net investments in foreign operations	-	-	(6,816)	-	-	(6,816)
Gains on cash flow hedging instruments			337			337
Total comprehensive income for the year	-	-	(5,944)	964,256	-	958,312
Transactions with shareholder						
Dividends	-	-	-	(380,521)	-	(380,521)
Total transactions with shareholder	-	-	-	(380,521)	-	(380,521)
Balance at December 31, 2016	₩ 2,021,896	₩ 5,219,704	₩ 494,863	₩ 15,588,539	₩ -	₩ 23,325,002

The accompanying notes are an integral part of these consolidated financial statements.

Kookmin Bank and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

(In millions of Korean won)	Notes	2016	2015
Cash flows from operating activities			
Profit for the year		₩ 964,256	₩ 1,107,238
Adjustment for non-cash items			
Net gains on financial assets/liabilities at fair value through profit or loss		(13,371)	(24,656)
Losses on derivative financial investments for hedging purposes		62,332	39,381
Adjustment of fair value of derivative financial instruments		338	1,771
Provision for credit losses		254,329	741,620
Net gains on financial investments		(119,516)	(179,901)
Share of profit of associates		(17,615)	(7,812)
Depreciation and amortization expense		219,934	204,467
Other net losses on property and equipment/intangible assets		4,828	7,225
Share-based payment		19,347	11,915
Post-employment benefits		160,650	164,173
Net interest income		328,731	430,411
Losses on foreign currency translation		204,143	250,568
Other expense(income)		(166)	54,409
		1,103,964	1,693,571
Changes in operating assets and liabilities			
Financial assets at fair value through profit or loss		(1,479,957)	1,034,252
Derivative financial instrument		24,221	91,296
Loans		(14,115,666)	(12,192,923)
Deferred income tax assets		6,389	287,506
Current income tax assets		(38,895)	(2,553)
Other assets		2,292,763	(612,548)
Financial liabilities at fair value through profit or loss		3,746	17,742
Deposits		11,267,180	12,605,816
Deferred income tax liabilities		(166,807)	83,471
Other liabilities		1,144,256	(779,103)
		(1,062,770)	532,956
Net cash inflow from operating activities		1,005,450	3,333,765
Cash flows from investing activities			
Net cash flows from derivative financial instrument for hedging purposes		509	-
Disposal of financial investments		25,827,783	19,594,218
Acquisition of financial investments		(28,369,287)	(23,176,836)
Decrease in investments in associates		106,052	36,318
Acquisition of investments in associates		(28,727)	(27,999)
Disposal of property and equipment		806	1,764
Acquisition of property and equipment		(349,724)	(172,590)
Acquisition of investment property		(1,254)	(4,290)
Disposal of intangible assets		4,166	3,525
Acquisition of intangible assets		(73,970)	(26,203)
Others		43,249	97,950
Net cash outflow from investing activities		(2,840,397)	(3,674,143)
Cash flows from financing activities			
Net cash flows from derivative financial instrument for hedging purposes		21,169	(29,326)
Net increase (decrease) in debts		1,452,671	(177,914)
Increase in debentures		5,244,976	5,383,612
Decrease in debentures		(6,322,089)	(4,905,441)
Payment of dividends		(380,521)	(230,496)
Net increase in other payables from trust accounts		1,639,779	367,493
Others		(36,679)	4,338
Net cash inflow from financing activities		1,619,306	412,266
Exchange gains on cash and cash equivalents		84,293	65,558
Net increase (decrease) in cash and cash equivalents		(131,348)	137,446
Cash and cash equivalents at the beginning of the year	36	6,469,506	6,332,060
Cash and cash equivalents at the end of year	36	₩ 6,338,158	₩ 6,469,506

The accompanying notes are an integral part of these consolidated financial statements.

1. The Bank

Kookmin Bank (the “Bank”) was incorporated in 1963 under the Citizens National Bank Act to provide banking services to the general public and to small and medium-sized enterprises. Pursuant to the Repeal Act of the Citizens National Bank Act, effective January 5, 1995, the Bank’s status changed to a financial institution which operates under the Banking Act and Commercial Act.

The Bank merged with Korea Long Term Credit Bank on December 31, 1998, and with its subsidiaries, Daegu, Busan, Jeonnam Kookmin Mutual Savings & Finance Co., Ltd., on August 22, 1999. Pursuant to the directive from the Financial Services Commission related to the Structural Improvement of the Financial Industry Act, the Bank acquired certain assets, including performing loans, and assumed most of the liabilities of Daedong Bank on June 29, 1998. Also, the Bank completed the merger with Housing and Commercial Bank (“H&CB”) on October 31, 2001, and merged with Kookmin Credit Card Co., Ltd., a majority-owned subsidiary, on September 30, 2003. Meanwhile, the Bank spun off its credit card business segment on February 28, 2011, and KB Kookmin Card Co., Ltd. became a subsidiary of KB Financial Group Inc.

The Bank listed its shares on the Stock Market Division of the Korea Exchange (“KRX,” formerly Korea Stock Exchange) in September 1994. As a result of the merger with H&CB, the shareholder of the former Kookmin Bank and H&CB received new common shares of the Bank which were relisted on the KRX on November 9, 2001. In addition, H&CB listed its American Depositary Shares (“ADS”) on the New York Stock Exchange (“NYSE”) on October 3, 2000, prior to the merger. Following the merger with H&CB, the Bank listed its ADS on the NYSE on November 1, 2001. The Bank became a wholly owned subsidiary of KB Financial Group Inc. through a comprehensive stock transfer on September 29, 2008. Subsequently, the Bank’s shares and its ADS, each listed on the KRX and the NYSE, were delisted on October 10, 2008 and September 26, 2008, respectively. As of December 31, 2016, the Bank’s paid-in capital is ₩2,021,896 million.

The Bank engages in the banking business in accordance with the Banking Act, trust business in accordance with the Financial Investment Services and Capital Markets Act, and other relevant businesses. As of December 31, 2016, the Bank operates 1,130 domestic branches and offices, and four overseas branches (excluding four subsidiaries and three offices).

2. Basis of Preparation

2.1 Application of Korean IFRS

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with Korean IFRS. The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The consolidated financial statements of the Bank and its subsidiaries (collectively the “Group”) have been prepared in accordance with Korean IFRS. These are the standards and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.4.

The Group newly applied the following amended and enacted standards and interpretations for the annual period beginning on January 1, 2016, and this application does not have a material impact on the consolidated financial statements.

- Amendment to Korean IFRS 1001 *Presentation of Financial Statements*
- Amendment to Korean IFRS 1027 *Separate Financial Statements*
- Amendment to Korean IFRS 1110 *Consolidated Financial Statements,* and Korean IFRS 1112*, Disclosures of Interests in Other Entities: Exemption for consolidation of investee,* and Korean IFRS 1028, *Investments in Associates and Joint Arrangements*
- Annual Improvements to Korean IFRS 2012-2014 *Cycle*

Also, new standards and interpretations issued but not effective for the financial period beginning January 1, 2016, and not early adopted are as follows:

- Amendment to Korean IFRS 1007 *Statement of Cash Flows*

This amendment requires to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows. The Group will apply this amendment for annual reporting periods beginning on or after January 1, 2017 with early application permitted. The Group does not expect the amendment to have a significant impact on the consolidated financial statements.

- Amendments to Korean IFRS 1012 *Income Tax*

This amendment clarifies how to account for deferred tax assets related to debt instruments measured at fair value. Korean IFRS 1012 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendment issued clarifies the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice. The Group will apply the amendment for annual periods beginning on or after January 1, 2017 with early application permitted. The Group does not expect the amendment to have a significant impact on the consolidated financial statements.

- Amendments to Korean IFRS 1102 *Share-based Payment*

This amendment clarifies accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Also, clarifies that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The Group will apply the amendments for annual periods beginning on or after January 1, 2018 with early application permitted. The Group does not expect the amendment to have a significant impact on the consolidated financial statements.

- Korean IFRS 1109 *Financial Instruments*

The new standard for financial instruments issued on September 25, 2015 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. This standard will replace Korean IFRS 1039 *Financial Instruments: Recognition and Measurement*. The Group will apply the standards for annual periods beginning on or after January 1, 2018.

The standard requires retrospective application with some exceptions. For example, the entity is not required to restate prior periods in relation to classification and measurement (including impairment) of financial instruments. The standard requires prospective application of its hedge accounting requirements for all hedging relationships except the accounting for time value of options and other exceptions.

Korean IFRS 1109 *Financial Instruments* requires all financial assets to be classified and measured on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. A new impairment model, an expected credit loss model, is introduced and any subsequent changes in expected credit losses will be recognized in profit or loss. Also, hedge accounting rules amended to extend the hedging relationship, which consists only of eligible hedging instruments and hedged items, qualifies for hedge accounting.

An effective implementation of Korea IFRS 1109 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and the system stabilization. The impact on the Group's financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Group and macroeconomic variables.

Within the Group, Korean IFRS 1109 Task Force Team ('TFT') has been set up to prepare for implementation of Korean IFRS 1109 since September 2015. There are three stages for implementation of Korean IFRS, such as analysis, design and implementation, and preparation for application. The Group is analyzing financial impacts of Korean IFRS 1109 on its consolidated financial statements.

Stage	Period	Process
1	From Oct. to Dec. 2015 (for 3 months)	Analysis of GAAP differences and development of methodology
2	From Jan. to Dec. 2016 (for 12 months)	Development of methodology, definition of business requirement, and the system development and test.
3	From Jan. 2017 to Mar. 2018 (for 15months)	Preparation for opening balances of the financial statements

Meanwhile, the following areas are likely to be affected in general.

(a) Classification and Measurement of Financial Assets

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Group’s business model for managing the financial assets and contractual terms of cash flow. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. For hybrid (combined) instruments, if the Group is unable to measure an embedded derivative separately from its host contract, financial assets with embedded derivatives are classified in their entirety.

Business model	***Contractual cash flows characteristics***	
	Solely represent payments of principal and interest	**All other**
Hold the financial asset for the collection of the contractual cash flows	Measured at amortized cost[1]	Recognized at fair value through profit or loss[2]
Hold the financial asset for the collection of the contractual cash flows and trading	Recognized at fair value through other comprehensive income[1]	
Hold for trading	Recognized at fair value through profit or loss	

[1]A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).
[2] Equity investments not held for trading can be recorded in other comprehensive income (irrevocable).

With the implementation of Korean IFRS 1109, the criteria to classify the financial assets at amortized cost or at fair value through other comprehensive income are more strictly applied than the criteria applied with Korean IFRS 1039. Accordingly, the financial assets at fair value through profit or loss may increase by implementing Korean IFRS 1109 and may result in an increased fluctuation in profit or loss.

(b) Classification and Measurement of Financial Liabilities

Korean IFRS 1109 requires the amount of the change in the liability's fair value attributable to changes in the credit risk to be recognized in other comprehensive income, unless this treatment of the credit risk component creates or enlarges a measurement mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

Under Korean IFRS 1039, all financial liabilities designated at fair value through profit or loss recognized their fair value movements in profit or loss. However, under Korean IFRS 1109, certain fair value movements will be recognized in other comprehensive income and as a result, profit or loss from fair value movements may decrease.

(c) Impairment: Financial Assets and Contract Assets

Korean IFRS 1109 sets out a new forward looking 'expected loss' impairment model which replaces the incurred loss model under Korean IFRS 1039 that impaired assets if there is an objective evidence and applies to:

- Financial assets measured at amortized cost,
- Debt investments measured at fair value through other comprehensive income, and
- Certain loan commitments and financial guaranteed contracts.

Under Korean IFRS 1109 'expected loss' model, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognized. The Group will always recognize (at a minimum) 12-month expected credit losses in profit or loss. Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

<table>
<tr><th colspan="2">Stage</th><th>Loss allowance</th></tr>
<tr><td>1</td><td>No significant increase in credit risk after initial recognition</td><td>12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date)</td></tr>
<tr><td>2</td><td>Significant increase in credit risk after initial recognition</td><td rowspan="2">Lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument)</td></tr>
<tr><td>3</td><td>Credit-impaired</td></tr>
</table>

Under Korean IFRS 1109, the asset that is credit-impaired at initial recognition would recognize all changes in lifetime expected credit losses since the initial recognition as a loss allowance with any changes recognized in profit or loss.

(d) Hedge Accounting

Hedge accounting mechanics (fair value hedges, cash flow hedges and hedge of net investments in a foreign operations) required by Korean IFRS 1039 remains unchanged in Korean IFRS 1109, however, the new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. Korean IFRS 1109 allows more hedging instruments and hedged items to qualify for hedge accounting, and relaxes the hedge accounting requirement by removing two hedge effectiveness tests that are a prospective test to ensure that the hedging relationship is expected to be highly effective and a quantitative retrospective test (within range of 80-125 %) to ensure that the hedging relationship has been highly effective throughout the reporting period.

With implementation of Korean IFRS 1109, volatility in profit or loss may be reduced as some items that were not eligible as hedged items or hedging instruments under Korean IFRS 1039 are now eligible under Korean IFRS 1109.

- Korean IFRS 1115*, Revenue from Contracts with Customers*

Korean IFRS 1115 *Revenue from Contracts with Customers* issued on November 6, 2015 replaces Korean IFRS 1018 *Revenue*, Korean IFRS 1011 *Construction Contracts*, Interpretation 2031 *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113 *Customer Loyalty Programs*, Interpretation 2115 *Agreements for the Construction of Real Estate* and Interpretation 2118 *Transfers of assets from customers.*

Korean IFRS 1018 and other, the current standard, provide revenue recognition criteria by type of transactions; such as, sales goods, the rendering of services, interest income, royalty income, dividend income, and construction contracts. However, Korean IFRS 1115, the new standard, is based on the principle that revenue is recognized when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue from contract with customer can be recognized:

- Identify contracts with customers
- Identify the separate performance obligation
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognize the revenue as each performance obligation is satisfied.

2.2 Measurement Basis

The consolidated financial statements have been prepared under the historical cost convention unless otherwise specified.

2.3 Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Korean won, which is the parent company's functional and presentation currency. Refer to Notes 3.2.1 and 3.2.2.

2.4 Critical Accounting Estimates

The preparation of consolidated financial statements requires the application of accounting policies, certain critical accounting estimates and assumptions that may have a significant impact on the assets (liabilities) and incomes (expenses). Management's estimates of outcomes may differ from actual outcomes if management's estimates and assumptions based on management's best judgment at the reporting date are different from the actual environment.

Estimates and assumptions are continually evaluated and any change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only. Alternatively if the change in accounting estimate affects both the period of change and future periods, that change is recognized in the profit or loss of all those periods.

Uncertainty in estimates and assumptions with significant risk that may result in material adjustment to the consolidated financial statements are as follows:

2.4.1 Income Taxes

The Group is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain.

If a certain portion of the taxable income is not used for investments, increase in wages, or dividends in accordance with the *Tax System For Recirculation of Corporate Income*, the Group is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new system. As the Group's income tax is dependent on the investments, increase in wages and dividends, there exists uncertainty with regard to measuring the final tax effects.

2.4.2 Fair Value of Financial Instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Refer to Note 6 for details on valuation techniques and inputs used to determine the fair value of financial instruments.

2.4.3 Provisions for Credit Losses (allowances for loan losses, provisions for acceptances and guarantees, and unused loan commitments)

The Group determines and recognizes allowances for losses on loans through impairment testing and recognizes provisions for guarantees, and unused loan commitments. The accuracy of provisions for credit losses is determined by the methodology and assumptions used for estimating expected cash flows of the borrower for individually assessed allowances of loans, collectively assessed allowances for groups of loans, guarantees and unused loan commitments.

2.4.4 Net Defined Benefit Liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions (Note 23).

2.4.5 Estimated Impairment of Goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations (Note 15).

3. Significant Accounting Policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

3.1 Consolidation

3.1.1 Subsidiaries

Subsidiaries are companies that are controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence and effects of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date when control is transferred to the Group and de-consolidated from the date when control is lost.

If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to make the subsidiary's accounting policies conform to those of the Group when the subsidiary's financial statements are used by the Group in preparing the consolidated financial statements.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests, if any. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions; that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

3.1.2 Associates

Associates are entities over which the Group has significant influence in the financial and operating policy decisions. If the Group holds 20% or more of the voting power of the investee, it is presumed that the Group has significant influence.

Under the equity method, investments in associates are initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss of the investee and changes in the investee's equity after the date of acquisition. The Group's share of the profit or loss of the investee is recognized in the Group's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Profit and loss resulting from 'upstream' and 'downstream' transactions between the Group and associates are eliminated to the extent at the Group's interest in associates. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

If associates use accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to make the associate's accounting policies conform to those of the Group when the associate's financial statements are used by the Group in applying equity method.

After the carrying amount of the investment is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

The Group determines at each reporting period whether there is any objective evidence that the investments in the associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates and its carrying value and recognizes the amount as 'non-operating income(expense)' in the statement of comprehensive income.

3.1.3 Structured Entity

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. When the Group decides whether it has power to the structured entities in which the Group has interests, it considers factors such as the purpose, the form, the practical ability to direct the relevant activities of a structured entity, the nature of its relationship with a structured entity and the amount of exposure to variable returns.

3.1.4 Trusts and Funds

The Group provides management services for trust assets, collective investment and other funds. These trusts and funds are not consolidated in the Group's consolidated financial statements, except for trusts and funds over which the Group has control.

3.1.5 Intra-group Transactions

All intra-group balances and transactions, and any unrealized gains arising on intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

3.2 Foreign Currency

3.2.1 Foreign Currency Transactions and Balances

A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. At the end of each reporting period, foreign currency monetary items are translated using the closing rate which is the spot exchange rate at the end of the reporting period. Non-monetary items that are measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined and non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in profit or loss in the period in which they arise, except for exchange differences arising on net investments in a foreign operation and financial liability designated as a hedge of the net investment. When gains or losses on a non-monetary item are recognized in other comprehensive income, any exchange component of those gains or losses are also recognized in other comprehensive income. Conversely, when gains or losses on a non-monetary item are recognized in profit or loss, any exchange component of those gains or losses are also recognized in profit or loss.

3.2.2 Foreign Operations

The financial performance and financial position of all foreign operations, whose functional currencies differ from the Group's presentation currency, are translated into the Group's presentation currency using the following procedures.

Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period. Income and expenses in the statement of comprehensive income presented are translated at average exchange rates for the period. All resulting exchange differences are recognized in other comprehensive income.

Any goodwill arising from the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation. Thus, they are expressed in the functional currency of the foreign operation and are translated into the presentation currency at the closing rate.

On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss (as a reclassification adjustment) when the gains or losses on disposal are recognized. On the partial disposal of a subsidiary that includes a foreign operation, the Group re-attributes the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation, the Group reclassifies to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income.

3.3 Recognition and Measurement of Financial Instruments

3.3.1 Initial Recognition

The Group recognizes a financial asset or a financial liability in its statement of financial position when the Group becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets (a purchase or sale of a financial asset under a contract whose terms require delivery of the financial instruments within the time frame established generally by market regulation or practice) is recognized and derecognized using trade date accounting.

The Group classifies financial assets as financial assets at fair value through profit or loss, held-to-maturity financial assets, available-for-sale financial assets, or loans and receivables, or other financial assets. The Group classifies financial liabilities as financial liabilities at fair value through profit or loss, or other financial liabilities. The classification depends on the nature and holding purpose of the financial instrument at initial recognition in the consolidated financial statements.

At initial recognition, a financial asset or financial liability is measured at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value of a financial instrument on initial recognition is normally the transaction price (that is, the fair value of the consideration given or received) in an arm’s length transaction.

3.3.2 Subsequent Measurement

After initial recognition, financial instruments are measured at amortized cost or fair value based on classification at initial recognition.

Amortized cost

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition and adjusted to reflect principal repayments, cumulative amortization using the effective interest method and any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Fair value

Fair values, which the Group primarily uses for the measurement of financial instruments, are the published price quotations based on market prices or dealer price quotations of financial instruments traded in an active market where available. These are the best evidence of fair value. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity in the same industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If the market for a financial instrument is not active, fair value is determined either by using a valuation technique or independent third-party valuation service. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, referencing to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

The Group uses valuation models that are commonly used by market participants and customized for the Group to determine fair values of common over-the-counter (OTC) derivatives such as options, interest rate swaps and currency swaps which are based on the inputs observable in markets. For more complex instruments, the Group uses internally developed models, which are usually based on valuation methods and techniques generally used within the industry, or a value measured by an independent external valuation institution as the fair values if all or some of the inputs to the valuation models are not market observable and therefore it is necessary to estimate fair value based on certain assumptions.

The Group’s Fair Value Evaluation Committee, which consists of the risk management department, trading department and accounting department, reviews the appropriateness of internally developed valuation models, and approves the selection and changing of the external valuation institution and other considerations related to fair value measurement. The review results on the fair valuation models are reported to the Market Risk Management subcommittee by the Fair Value Evaluation Committee on a regular basis.

If the valuation technique does not reflect all factors which market participants would consider in setting a price, the fair value is adjusted to reflect those factors. Those factors include counterparty credit risk, bid-ask spread, liquidity risk and others.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with economic methodologies applied for pricing financial instruments. Periodically, the Group calibrates the valuation technique and tests its validity using prices of observable current market transactions of the same instrument or based on other relevant observable market data.

3.3.3 Derecognition

Derecognition is the removal of a previously recognized financial asset or financial liability from the statement of financial position. The Group derecognizes a financial asset or a financial liability when, and only when:

Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or the financial assets have been transferred and substantially all the risks and rewards of ownership of the financial assets are also transferred, or all the risks and rewards of ownership of the financial assets are neither substantially transferred nor retained and the Group has not retained control. If the Group neither transfers nor disposes of substantially all the risks and rewards of ownership of the financial assets, the Group continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

If the Group transfers the contractual rights to receive the cash flows of the financial asset, but retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognize the transferred asset in its entirely and recognize a financial liability for the consideration received.

Derecognition of financial liabilities

Financial liabilities are derecognized from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires.

3.3.4 Offsetting

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.4 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, foreign currency, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.5 Non-derivative Financial Assets

3.5.1 Financial Assets at Fair Value through Profit or Loss

This category comprises two sub-categories: financial assets classified as held for trading and financial assets designated by the Group as at fair value through profit or loss upon initial recognition.

A non-derivative financial asset is classified as held for trading if either:

- It is acquired for the purpose of selling in the near term, or
- It is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

The Group may designate certain financial assets, other than held for trading, upon initial recognition as at fair value through profit or loss when one of the following conditions is met:

- It eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.
- A group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel.
- A contract contains one or more embedded derivatives; the Group may designate the entire hybrid (combined) contract as a financial asset at fair value through profit or loss if allowed by Korean IFRS 1039 *Financial Instruments: Recognition and measurement*.

The Group did not separate an embedded derivative from its host contract of derivative linked securities but designated the entire hybrid contract as at fair value through profit of loss.

After initial recognition, a financial asset at fair value through profit or loss is measured at fair value and gains or losses arising from a change in the fair value are recognized in profit or loss. Interest income, dividend income, and gains or losses from sale and repayment from financial assets at fair value through profit or loss are recognized in the statement of comprehensive income as net gains on financial instruments at fair value through profit or loss.

3.5.2 Financial Investments

Available-for-sale and held-to-maturity financial assets are presented as financial investments.

Available-for-sale financial assets

Profit or loss of financial assets classified as available for sale, except for impairment loss and foreign exchange gains and losses resulting from changes in amortized cost of debt securities, is recognized as other comprehensive income, and cumulative profit or loss is reclassified from equity to profit or loss at the derecognition of the financial asset, and it is recognized as part of other operating profit or loss in the statement of comprehensive income.

However, interest income measured using the effective interest method is recognized in current profit or loss, and dividends of financial assets classified as available-for-sale are recognized when the right to receive payment is established.

Available-for-sale financial assets denominated in foreign currencies are translated at the closing rate. For available-for-sale debt securities denominated in foreign currency, exchange differences resulting from changes in amortized cost are recognized in profit or loss as part of other operating income and expenses. For available-for-sale equity securities denominated in foreign currency, the entire change in fair value including any exchange component is recognized in other comprehensive income.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are subsequently measured at amortized cost using the effective interest method after initial recognition and interest income is recognized using the effective interest method.

3.5.3 Loans and Receivables

Non-derivative financial assets which meet all of following conditions are classified as loans and receivables:

- Those with fixed or determinable payments.
- Those that are not quoted in an active market.
- Those that the Group does not intend to sell immediately or in the near term.
- Those that the Group, upon initial recognition, does not designate as available-for-sale or as at fair value through profit or loss.

After initial recognition, these are subsequently measured at amortized cost using the effective interest method.

If the financial asset is purchased under an agreement to resale the asset at a fixed price or at a price that provides a lender's return on the purchase price, the consideration paid is recognized as loans and receivables.

3.6 Impairment of Financial Assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets, except for financial assets at fair value through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. However, losses expected as a result of future events, no matter how likely, are not recognized.

Objective evidence that a financial asset or group of assets is impaired includes the following loss events:

- Significant financial difficulty of the issuer or obligor.
- A breach of contract, such as a default or delinquency in interest or principal payments.
- The lender, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.
- It becomes probable that the borrower will declare bankruptcy or undergo financial reorganization.
- The disappearance of an active market for that financial asset because of financial difficulties.
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio.

In addition to the types of events in the preceding paragraphs, objective evidence of impairment for an investment in an equity instrument classified as an available-for-sale financial asset includes a significant or prolonged decline in the fair value below its cost. The Group considers the decline in the fair value of over 30% against the original cost as a “significant decline”. A decline is considered as prolonged if the period, in which the fair value of the financial asset has been below its original cost at initial recognition, is same as or more than six months.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured and recognized in profit or loss as either provisions for credit loss or other operating income and expenses.

3.6.1 Loans and Receivables

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant (individual assessment of impairment), and individually or collectively for financial assets that are not individually significant.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (collective assessment of impairment).

Individual assessment of impairment

Individual assessment of impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. This process normally encompasses management's best estimate, such as operating cash flow of the borrower and net realizable value of any collateral held.

Collective assessment of impairment

A methodology based on historical loss experience is used to estimate inherent incurred loss on groups of assets for collective assessment of impairment. Such methodology incorporates factors such as type of collateral, product and borrowers, credit rating, loss emergence period, recovery period and applies probability of default on a group of assets and loss given default by type of recovery method. Also, consistent assumptions are applied to form a formula-based model in estimating inherent loss and to determine factors on the basis of historical loss experience and current condition. The methodology and assumptions used for collective assessment of impairment are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment loss on loans reduces the carrying amount of the asset through use of an allowance account, and when a loan becomes uncollectable, it is written off against the related allowance account. If, in a subsequent period, the amount of the impairment loss decreases and is objectively related to the subsequent event after recognition of impairment, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

3.6.2 Available-For-Sale Financial Assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss (the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) that had been recognized in other comprehensive income is reclassified from equity to profit or loss as part of other operating income and expenses. The impairment loss on available-for-sale financial assets is directly deducted from the carrying amount.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, a portion of the impairment loss is reversed up to but not exceeding the previously recorded impairment loss, with the amount of the reversal recognized in profit or loss as part of other operating income and expenses in the statement of comprehensive income. However, impairment losses recognized in profit or loss for an available-for-sale equity instrument classified as available for sale are not reversed through profit or loss.

3.6.3 Held-to-Maturity Financial Assets

If there is objective evidence that an impairment loss on held-to-maturity financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognized in profit or loss as part of other operating income and expenses. The impairment loss on held-to-maturity financial assets is directly deducted from the carrying amount.

In the case of a financial asset classified as held to maturity, if, in a subsequent period, the amount of the impairment loss decreases and it is objectively related to an event occurring after the impairment is recognized, a portion of the previously recognized impairment loss is reversed up to but not exceeding the extent of amortized cost at the date of recovery. The amount of reversal is recognized in profit or loss as part of other operating income and expenses in the statement of comprehensive income.

3.7 Derivative Financial Instruments

The Group enters into numerous derivative financial instrument contracts such as currency forwards, interest rate swaps, currency swaps and others for trading purposes or to manage its exposures to fluctuations in interest rates and currency exchange, amongst others. The Group’s derivative operations focus on addressing the needs of the Group’s corporate clients to hedge their risk exposure and to hedge the Group’s risk exposure that results from such client contracts. These derivative financial instruments are presented as derivative financial instruments within the consolidated financial statements irrespective of transaction purpose and subsequent measurement requirement.

The Group designates certain derivatives and non-derivatives as hedging instruments to hedge the risk of changes in fair value and cash flow of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge and cash flow hedge). The Group designates non-derivatives as hedging instruments to hedge the risk of foreign exchange of a net investment in a foreign operation (hedge of net investment).

At the inception of the hedge, there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk.

3.7.1 Derivative Financial Instruments Held for Trading

All derivative financial instruments, except for derivatives that are designated and qualify for hedge accounting, are measured at fair value. Gains or losses arising from a change in fair value are recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss.

3.7.2 Fair Value Hedges

If derivatives qualify for a fair value hedge, the change in fair value of the hedging instrument and the change in fair value of the hedged item attributable to the hedged risk are recognized in profit or loss as part of other operating income and expenses. Fair value hedge accounting is discontinued prospectively if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Once fair value hedge accounting is discontinued, the adjustment to the carrying amount of a hedged item is fully amortized to profit or loss by the maturity of the financial instrument using the effective interest method.

3.7.3 Cash Flow Hedges

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and the ineffective portion is recognized in gain or loss. The associated gains or losses that were previously recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affects profit or loss. Cash flow hedge accounting is discontinued prospectively if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. When the cash flow hedge accounting is discontinued, the cumulative gains or losses on the hedging instrument that have been recognized in other comprehensive income are reclassified to profit or loss over the year in which the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the cumulative gains or losses that had been recognized in other comprehensive income are immediately reclassified to profit or loss.

3.7.4 Hedge of Net Investment

If financial liabilities qualify for a net investment hedge, the effective portion of changes in fair value of hedging instrument is recognized in other comprehensive income or loss and the ineffective portion is recognized in profit or loss. The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognized in other comprehensive income will be reclassified from other comprehensive income or loss to profit or loss as a reclassification adjustment on the disposal or partial disposal of the foreign operation in accordance with Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*.

3.7.5 Embedded Derivatives

An embedded derivative is separated from the host contract and accounted for as a derivative if, and only if, the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss. Gains or losses arising from a change in the fair value of an embedded derivative separated from the host contract are recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss.

3.7.6 Day One Gain and Loss

If the Group uses a valuation technique that incorporates data not obtained from observable markets for the fair value at initial recognition of the financial instrument, there may be a difference between the transaction price and the amount determined using that valuation technique. In these circumstances, the difference is deferred and not recognized in profit or loss, and is amortized by using the straight-line method over the life of the financial instrument. If the fair value of the financial instrument is subsequently determined using observable market inputs, the remaining deferred amount is recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss or other operating income and expenses.

3.8 Property and Equipment

3.8.1 Recognition and Measurement

All property and equipment that qualify for recognition as an asset are measured at cost and subsequently carried at cost less any accumulated depreciation and any accumulated impairment losses.

The cost of property and equipment includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent expenditures are capitalized only when they prolong the useful life or enhance values of the assets but the costs of the day-to-day servicing of the assets such as repair and maintenance costs are recognized in profit or loss as incurred.

3.8.2 Depreciation

Land is not depreciated whereas other property and equipment are depreciated using the method that reflects the pattern in which the asset’s future economic benefits are expected to be consumed by the Group. The depreciable amount of an asset is determined after deducting its residual value. As for leased assets, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

The depreciation methods and estimated useful lives of the assets are as follows:

Property and equipment	Depreciation method	Estimated useful lives
Buildings and structures	Straight-line	40 years
Leasehold improvements	Declining-balance	4 years
Equipment and vehicles	Declining-balance	4 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at least at each financial year end and, if expectations differ from previous estimates or if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the changes are accounted for as a change in an accounting estimate.

3.9 Investment Properties

3.9.1 Recognition and Measurement

Properties held to earn rentals or for capital appreciation or both are classified as investment properties. Investment properties are measured initially at their cost and subsequently the cost model is used.

3.9.2 Depreciation

Land is not depreciated, whereas other investment properties are depreciated using the method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group. The depreciable amount of an asset is determined after deducting its residual value.

The depreciation method and estimated useful lives of the assets are as follows:

Investment Properties	Depreciation method	Estimated useful lives
Buildings	Straight-line	40 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at least at each financial year end and, if expectations differ from previous estimates or if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the changes are accounted for as a change in an accounting estimate.

3.10 Intangible Assets

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

Intangible assets, except for goodwill and membership rights, are amortized using the straight-line method with no residual value over their estimated useful economic life since the asset is available for use.

Intangible assets	Amortization method	Estimated useful lives
Industrial property rights	Straight-line	5 ~ 10 years
Software	Straight-line	4 years
Others	Straight-line	2 ~ 30 years

The amortization period and the amortization method for intangible assets with a finite useful life are reviewed at least at each financial year end. Where an intangible asset is not being amortized, because its useful life is considered to be indefinite, the Group carries out a review in each accounting period to confirm whether or not events and circumstances still support the assumption of an indefinite useful life. If they do not, the change from the indefinite to finite useful life is accounted for as a change in an accounting estimate.

3.10.1 Goodwill

Recognition and measurement

Goodwill acquired from business combinations before January 1, 2010, is stated at its carrying amount which was recognized under the Group’s previous accounting policy, prior to the transition to Korean IFRS.

Goodwill acquired from business combinations after January 1, 2010, is initially measured as the excess of the aggregate of the consideration transferred, fair value of non-controlling interest and the acquisition-date fair value of the acquirer’s previously held equity interest in the acquiree over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the business acquired, the difference is recognized in profit or loss.

For each business combination, the Group decides whether the non-controlling interest in the acquiree is initially measured at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets at the acquisition date.

Acquisition-related costs incurred to effect a business combination are charged to expenses in the periods in which the costs are incurred and the services are received, except for the costs to issue debt or equity securities.

Additional acquisitions of non-controlling interest

Additional acquisitions of non-controlling interests are accounted for as equity transactions. Therefore, no additional goodwill is recognized.

Subsequent measurement

Goodwill is not amortized and is stated at cost less accumulated impairment losses. However, goodwill that forms part of the carrying amount of an investment in associates is not separately recognized and an impairment loss recognized is not allocated to any asset, including goodwill, which forms part of the carrying amount of the investment in the associates.

3.10.2 Subsequent Expenditure

Subsequent expenditure is capitalized only when it enhances values of the assets. Internally generated intangible assets, such as goodwill and trade name, are not recognized as assets but expensed as incurred.

3.11 Leases

3.11.1 Finance Lease

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. At the commencement of the lease term, the Group recognizes finance leases as assets and liabilities in its statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs of the lessee are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the Group adopts for depreciable assets that are owned. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is fully depreciated over the shorter of the lease term and its useful life.

3.11.2 Operating Lease

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Leases in the financial statements of lessees

Lease payments under an operating lease (net of any incentives received from the lessor) are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the asset's benefit.

Leases in the financial statements of lessors

Lease income from operating leases are recognized in income on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred by the lessors in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

3.12 Greenhouse Gas Emission Rights and Liabilities

The Group measured at zero the emission rights received free of charge from the government following the Enforcement of Allocation and Trading of Greenhouse Gas Emissions Allowances. Emission rights purchased are measured initially at cost and subsequently carried at their costs less any accumulated impairment losses. Emission liabilities are measured as the sum of the carrying amount of emission allowances held by the Group and best estimate of the expenditure required to settle the obligation for any excess emissions at the end of reporting period. The emission rights and liabilities are classified as ‘intangible assets’ and ‘provisions’, respectively, in the consolidated statement of financial position.

The emission rights held for trading are measured at fair value and the changes in fair value are recognized in profit or loss. The changes in fair value and gain or loss on disposal are classified as non-operating income and expenses.

3.13 Impairment of Non-Financial Assets

The Group assesses at the end of each reporting period whether there is any indication that a non-financial asset, except for (i) deferred income tax assets, (ii) assets arising from employee benefits and (iii) non-current assets (or group of assets to be sold) classified as held for sale, may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. However, irrespective of whether there is any indication of impairment, the Group tests (i) goodwill acquired in a business combination, (ii) intangible assets with an indefinite useful life and (iii) intangible assets not yet available for use for impairment annually by comparing their carrying amount with their recoverable amount.

The recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit). A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit that are discounted by a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss and recognized immediately in profit or loss. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

An impairment loss recognized for goodwill is not reversed in a subsequent period. The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset, other than goodwill, may no longer exist or may have decreased, and an impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

3.14 Non-Current Assets Held for Sale

A non-current asset or disposal group is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For being qualified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. A non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell which is measured in accordance with the applicable Korean IFRS, immediately before the initial classification of the asset (or disposal group) as held for sale.

A non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale is not depreciated (or amortized).

Impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. Gains are recognized for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized.

3.15 Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. After initial recognition, financial liabilities at fair value through profit or loss are measured at fair value and gains or losses arising from changes in the fair value, and gains or losses from sale and repayment of financial liabilities at fair value through profit or loss are recognized as net gains on financial instruments at fair value through profit or loss in the statement of comprehensive income.

3.16 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of provisions, and where the effect of the time value of money is material, the amount of provisions are the present value of the expenditures expected to be required to settle the obligation.

Provisions on confirmed and unconfirmed acceptances and guarantees, unfunded commitments of credit cards and unused credit lines of consumer and corporate loans are recognized using a valuation model that applies the credit conversion factor, probability of default, and loss given default.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provisions are reversed.

3.17 Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due according to the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognized at fair value. After initial recognition, financial guarantee contracts are measured at the higher of:

– The amount determined in accordance with Korean IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets, and*
– The initial amount recognized, less, when appropriate, cumulative amortization recognized in accordance with Korean IFRS 1018 *Revenue.*

3.18 Equity Instrument Issued by the Group

An equity instrument is any contract or agreement that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted, net of tax, from the equity.

3.19 Revenue Recognition

3.19.1 Interest Income and Expense

Interest income and expense are recognized using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the Group uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Interest on impaired financial assets is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.19.2 Fee and Commission Income

The Group recognizes financial service fees in accordance with the accounting standard of the financial instrument related to the fees earned.

Fees that are an integral part of the effective interest of a financial instrument

Such fees are generally treated as adjustments of effective interest. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction and origination fees received on issuing financial liabilities measured at amortized cost. However, fees relating to the creation or acquisition of a financial instrument at fair value through profit or loss are recognized as revenue immediately.

Fees earned as services are provided

Such fees are recognized as revenue as the services are provided. The fees include fees charged for servicing a financial instrument and charged for managing investments.

Fees that are earned on the execution of a significant act

Such fees are recognized as revenue when the significant act has been completed.

Commission on negotiation or participation in negotiation for the third party such as trading stocks or other securities, arranging transfer and acquisition of business is recognized as revenue when the transaction has been completed.

A syndication fee received by the Bank that arranges a loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants) is compensation for the service of syndication. Such a fee is recognized as revenue when the syndication has been completed.

3.19.3 Dividend Income

Dividend income is recognized in profit or loss when the right to receive payment is established. Dividend income from financial assets at fair value through profit or loss and financial investment is recognized in profit or loss as part of net gains on financial assets at fair value through profit or loss and other operating income and expenses, respectively.

3.20 Employee Compensation and Benefits

3.20.1 Post-employment Benefits:

Defined benefit plans

All post-employment benefits, other than defined contribution plans, are classified as defined benefit plans. The amount recognized as a net defined benefit liability is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period.

The present value of the defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit method. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The currency and term of the corporate bonds are consistent with the currency and estimated term of the post-employment benefit obligations. Actuarial gains and losses including experience adjustments and the effects of changes in actuarial assumptions are recognized in other comprehensive income(loss).

When the total of the present value of the defined benefit obligation minus the fair value of plan assets results in an asset, it is recognized to the extent of the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Past service cost is the change in the present value of the defined benefit obligation, which arises when the Group introduces a defined benefit plan or changes the benefits of an existing defined benefit plan. Such past service cost is immediately recognized as an expense for the period.

Defined contribution plans

The contributions are recognized as employee benefit expense when they are due.

3.20.2 Short-term Employee Benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service. The undiscounted amount of short-term employee benefits expected to be paid in exchange for that service is recognized as a liability (accrued expense), after deducting any amount already paid.

The expected cost of profit-sharing and bonus payments are recognized as liabilities when the Group has a present legal or constructive obligation to make such payments as a result of past events rendered by employees and a reliable estimate of the obligation can be made.

3.20.3 Share-based Payment

The Group has share grant and mileage stock programs to directors and employees of the Group. The Group has a choice of whether to settle share grant in cash or by issuing equity instruments of KB Financial Group Inc., the ultimate parent company, at the date of settlement, while the Group shall settle the mileage stock in cash based on the stock price.

For a share-based payment transaction in which the terms of the arrangement provide the Group with the choice of whether to settle in cash or by issuing equity instruments, the Group determines that it has a present obligation to settle in cash because the Group has a past practice and a stated policy of settling in cash. Therefore, the fair value of the employee service is recognized as expense and accrued expenses over the vesting period. Also, the Group accounts for the mileage stock in accordance with the requirements of cash-settled share-based payment transactions, and recognizes the corresponding liability and expenses at the vesting period.

Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

3.20.4 Termination Benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group shall recognize a liability and expense for termination benefits at the earlier of the following dates: when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring that is within the scope of Korean IFRS 1037 and involves the payment of termination benefits. Termination benefits are measured by considering the number of employees expected to accept the offer in the case of a voluntary early retirement. Termination benefits over 12 months after the reporting period are discounted to present value.

3.21 Income Tax Expenses

Income tax expense comprises current tax expense and deferred income tax expense. Current and deferred income tax are recognized as income or expense for the period, except to the extent that the tax arises from a transaction or an event which is recognized, in the same or a different period outside profit or loss, either in other comprehensive income or directly in equity and a business combination.

3.21.1 Current income tax

Current income tax is the amount of income tax payable in respect of the taxable profit (loss) for a period. A difference between the taxable profit and accounting profit may arise when income or expense is included in accounting profit in one period, but is included in taxable profit in a different period. Differences may also arise if there is revenue that is exempt from taxation, or expense that is not deductible in determining taxable profit (loss). Current income tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The Group offsets current income tax assets and current income tax liabilities if, and only if, the Group (a) has a legally enforceable right to set off the recognized amounts and (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.21.2 Deferred Income Tax

Deferred income tax is recognized, using the asset-liability method, on temporary differences arising between the tax based amount of assets and liabilities and their carrying amount in the consolidated financial statements. Deferred income tax liabilities are recognized for all taxable temporary differences and deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, and associates, except for deferred income tax liabilities for which the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of a deferred income tax asset is reviewed at the end of each reporting period. The Group reduces the carrying amount of a deferred income tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred income tax asset to be utilized.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Group offsets deferred income tax assets and deferred income tax liabilities when the Group has a legally enforceable right to offset current income tax assets against current income tax liabilities; and the deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity; or different taxable entities which intend either to settle current income tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered.

3.21.3 Uncertain Tax Positions

Uncertain tax positions arise from tax treatments applied by the Group which may be challenged by the tax authorities due to the complexity of the transaction or different interpretation of the tax laws, a claim for rectification brought by the Group, or an appeal for a refund claimed from the tax authorities related to additional assessments. The Group recognizes its uncertain tax positions in the consolidated financial statements based on the guidance in Korean IFRS 1012. The income tax asset is recognized if a tax refund is probable for taxes paid and levied by the tax authority. However, interest and penalties related to income tax are recognized in accordance with Korean IFRS 1037.

3.22 Transactions with the Trust Accounts

Under the Financial Investment Services and Capital Markets Act, the Group recognizes trust accounts (“the trust accounts”) as separate. The borrowings from trust accounts represent transfer of funds in trust accounts into banking accounts. Such borrowings from trust accounts are recorded as receivables from the banking accounts in the trust accounts and as borrowings from trust accounts in the banking accounts. The Group earns trust fees from the trust accounts for its management of trust assets and operations. The reserves for future profits and losses are set up in the trust accounts for profits and losses related to those trust funds with a guarantee of the principal or of the principal and a certain minimum rate of return in accordance with the relevant laws and regulations applicable to trust operations. The reserves are used to provide for the losses on such trust funds and, if the losses incurred are in excess of the reserves, the excess losses are compensation paid as a loss on trust management in other operating expenses and the trust accounts recognize the corresponding compensation as compensation from banking accounts.

3.23 Operating Segments

Operating segments are components of the Group where separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.
Segment information includes items which are directly attributable and reasonably allocated to the segment.

4. Financial Risk Management

4.1 Summary

4.1.1 Overview of Financial Risk Management Policy

The financial risks that the Group is exposed to are credit risk, market risk, liquidity risk, operational risk and others.

This note regarding financial risk management provides information about the risks that the Group is exposed to, including the objectives, policies and processes for managing the risks, the methods used to measure the risks, and capital management. Additional quantitative information is disclosed throughout the consolidated financial statements.

The Group's risk management system focuses on increasing transparency, developing the risk management environment, preventing transmission of risk to other related subsidiaries, and the preemptive response to risk due to rapid changes in the financial environment to support the Group's long-term strategy and business decisions efficiently. Credit risk, market risk, liquidity risk, and operational risk have been recognized as the Group's key risks. These risks are measured in Internal Capital or Value at Risk (VaR) and are managed using a statistical method.

4.1.2 Risk Management Organization

Risk Management Committee

The Risk Management Committee establishes risk management strategies in accordance with the directives of the Board of Directors and determines the Group's target risk appetite approves significant risk matters and reviews the level of risks that the Group is exposed to and the appropriateness of the Group's risk management operations as an ultimate decision-making authority.

Risk Management Council

The Risk Management Council is a consultative group which reviews and makes decisions on matters delegated by the Risk Management Committee and discusses the detailed issues relating to the Group's risk management.

Risk Management Subcommittee

The Risk Management Subcommittee enforces decisions made by Risk Management Council, and makes practical decisions to implement risk management policies and procedures.

- Credit Risk Management Subcommittee
  The Credit Risk Management Subcommittee approves exotic and hybrid products accompanying credit risk and reviews newly developed products accompanying credit risk. Also, it reviews and approves the exposure limits by industry.

- Market Risk Management Subcommittee
  The Market Risk Management Subcommittee reviews and makes decisions on setting risk limits and approving the standard for investments in newly developed standard, exotic and hybrid products.

- Operational Risk Management Subcommittee
  The Operational Risk Management Subcommittee reviews the issues that have a significant effect on the Group's operational risk relating to establishment, amendment and abolition of major system, process and others.

Risk Management Group

The Risk Management Group is responsible for managing specific policies, procedures and work processes relating to the Group's risk management.

4.2 Credit Risk

4.2.1 Overview of Credit Risk

Credit risk is the risk of possible losses in an asset portfolio in the event of a counterparty's default, breach of contract and deterioration in the credit quality of the counterparty. For risk management reporting purposes, the individual borrower's default risk, country risk, specific risks and other credit risk exposure components are considered as a whole.

4.2.2 Credit Risk Management

The Group measures expected losses and internal capital on assets that are subject to credit risk management whether on- or off-balance sheet items and uses expected losses and internal capital as a management indicator. The Group manages credit risk by allocating credit risk internal capital limits.

In addition, the Group controls the credit concentration risk exposure by applying and managing total exposure limits to prevent an excessive risk concentration to each industry and borrower.

The Group has organized a credit risk management group that focuses on credit risk management in accordance with the Group's credit risk management policy. The Group's credit group, customer service group and SME/SOHO group, which are independent from the sales department, are responsible for loan policy, loan limit, loan review, credit evaluation, restructuring and subsequent events. The credit risk management group is also responsible for planning risk management policy, applying limits of credit lines, measuring the credit risk internal capital, adjusting credit limits, reviewing credit and verifying credit evaluation models.

4.2.3 Maximum Exposure to Credit Risk

The Group's maximum exposures of financial instruments, excluding equity securities, to credit risk without consideration of collateral values as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Financial assets		
Due from financial institutions	₩ 12,126,695	₩ 12,092,294
Financial assets at fair value through profit or loss		
Financial assets held for trading[1]	7,765,467	6,356,529
Financial assets designated at fair value through profit or loss	129,535	70,198
Derivatives	2,796,445	2,186,010
Loans[2]	236,551,052	222,738,064
Financial investments		
Available-for-sale financial assets	21,807,445	18,293,533
Held-to-maturity financial assets	8,427,498	11,748,794
Other financial assets[2]	5,021,200	6,887,727
	294,625,337	280,373,149
Off-balance sheet items		
Acceptances and guarantees contracts	7,552,124	8,932,463
Financial guarantee contracts	3,361,307	4,014,116
Commitments	54,261,648	56,752,653
	65,175,079	69,699,232
	₩ 359,800,416	₩ 350,072,381

[1]The amounts of ₩72,349 million and ₩69,060 million as of December 31, 2016 and 2015, respectively, related to financial instruments indexed to the price of gold are included.
[2] Loans and other financial assets are presented net of allowance for loan losses.

4.2.4 Credit Risk of Loans

The Group maintains an allowance for loan losses associated with credit risk on loans to manage its credit risk.

Loans are categorized as follows:

(In millions of Korean won)

	2016					
Loans	**Retail**		**Corporate**		**Total**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Neither past due nor impaired	₩ 122,595,003	98.96	₩ 112,711,155	98.64	₩ 235,306,158	98.81
Past due but not impaired	825,239	0.67	191,029	0.17	1,016,268	0.43
Impaired	457,086	0.37	1,367,151	1.19	1,824,237	0.76
	123,877,328	100.00	114,269,335	100.00	238,146,663	100.00
Allowances	(333,269)	0.27	(1,262,342)	1.10	(1,595,611)	0.67
Carrying amount	₩ 123,544,059		₩ 113,006,993		₩ 236,551,052	

(In millions of Korean won)

	2015					
Loans	**Retail**		**Corporate**		**Total**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Neither past due nor impaired	₩ 114,339,823	98.60	₩ 106,622,773	98.00	₩ 220,962,596	98.31
Past due but not impaired	1,095,774	0.94	283,238	0.26	1,379,012	0.61
Impaired	530,988	0.46	1,891,347	1.74	2,422,335	1.08
	115,966,585	100.00	108,797,358	100.00	224,763,943	100.00
Allowances	(432,414)	0.37	(1,593,465)	1.46	(2,025,879)	0.90
Carrying amount	₩ 115,534,171		₩ 107,203,893		₩222,738,064	

Credit qualities of loans that are neither past due nor impaired are as follows:

(In millions of Korean won)

	2016		
	Retail	**Corporate**	**Total**
Grade 1	₩ 106,054,765	₩ 53,999,305	₩ 160,054,070
Grade 2	14,292,822	49,186,970	63,479,792
Grade 3	1,519,409	7,563,785	9,083,194
Grade 4	516,670	1,614,152	2,130,822
Grade 5	211,337	346,943	558,280
	₩ 122,595,003	₩ 112,711,155	₩ 235,306,158

(In millions of Korean won)

	2015		
	Retail	**Corporate**	**Total**
Grade 1	₩ 100,584,890	₩ 48,340,172	₩ 148,925,062
Grade 2	11,581,264	46,094,415	57,675,679
Grade 3	1,422,572	9,978,535	11,401,107
Grade 4	509,761	1,797,388	2,307,149
Grade 5	241,336	412,263	653,599
	₩ 114,339,823	₩ 106,622,773	₩ 220,962,596

Credit qualities of loans graded according to internal credit ratings are as follows:

	Retail	**Corporate**
Grade 1	1 to 5 grade	AAA to BBB+
Grade 2	6 to 8 grade	BBB to BB
Grade 3	9 to 10 grade	BB- to B
Grade 4	11 grade	B- to CCC
Grade 5	12 grade or under	CC or under

Loans that are past due but not impaired are as follows:

(In millions of Korean won)

	2016			
	1 ~ 29 days	**30 ~ 59 days**	**60 ~ 89 days**	**Total**
Retail	₩ 705,551	₩ 79,990	₩ 39,698	₩ 825,239
Corporate	130,005	38,210	22,814	191,029
	₩ 835,556	₩ 118,200	₩ 62,512	₩ 1,016,268

(In millions of Korean won)

	2015			
	1 ~ 29 days	**30 ~ 59 days**	**60 ~ 89 days**	**Total**
Retail	₩ 935,766	₩ 108,682	₩ 51,326	₩ 1,095,774
Corporate	214,332	55,832	13,074	283,238
	₩ 1,150,098	₩ 164,514	₩ 64,400	₩ 1,379,012

Impaired loans are as follows:

(In millions of Korean won)

	2016		
	Retail	Corporate	Total
Loans	₩ 457,086	₩ 1,367,151	₩ 1,824,237
Allowances	(146,507)	(894,227)	(1,040,734)
Individual	-	(770,805)	(770,805)
Collective	(146,507)	(123,422)	(269,929)
	₩ 310,579	₩ 472,924	₩ 783,503

(In millions of Korean won)

	2015		
	Retail	Corporate	Total
Loans	₩ 530,988	₩ 1,891,347	₩ 2,422,335
Allowances	(208,921)	(1,135,346)	(1,344,267)
Individual	-	(955,250)	(955,250)
Collective	(208,921)	(180,096)	(389,017)
	₩ 322,067	₩ 756,001	₩ 1,078,068

A quantification of the extent to which collateral and other credit enhancements mitigate credit risk as of December 31, 2016 and 2015, is as follows:

(In millions of Korean won)

	2016				
	Impaired Loans		Non-impaired Loans		
	Individual	Collective	Past due	Not past due	Total
Guarantee	₩ 21,168	₩ 118,611	₩ 186,762	₩ 52,128,706	₩ 52,455,247
Deposits and savings	10,000	6,026	27,493	1,574,010	1,617,529
Property and equipment	4,280	1,531	142	1,735,898	1,741,851
Real estate	169,837	317,314	588,736	136,804,042	137,879,929
	₩ 205,285	₩ 443,482	₩ 803,133	₩192,242,656	₩193,694,556

(In millions of Korean won)

	2015				
	Impaired Loans		Non-impaired Loans		
	Individual	Collective	Past due	Not past due	Total
Guarantee	₩ 26,150	₩ 130,774	₩ 248,709	₩ 42,736,193	₩ 43,141,826
Deposits and savings	599	9,875	26,681	1,724,084	1,761,239
Property and equipment	7,888	3,626	181	1,362,910	1,374,605
Real estate	170,694	410,403	826,655	128,875,879	130,283,631
	₩ 205,331	₩ 554,678	₩1,102,226	₩174,699,066	₩176,561,301

4.2.5 Credit Quality of Securities

The financial assets at fair value through profit or loss and financial investments, excluding equity securities, that are exposed to credit risk as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Securities that are neither past due nor impaired	₩ 38,057,596	₩ 36,399,994
Impaired securities	-	-
	₩ 38,057,596	₩ 36,399,994

The credit quality of securities, excluding equity securities that are neither past due nor impaired, as of December 31, 2016 and 2015, is as follows:

(In millions of Korean won)

	2016					
	Grade 1	**Grade 2**	**Grade 3[1]**	**Grade 4**	**Grade 5**	**Total**
Financial assets held for trading	₩ 6,313,489	₩ 1,373,625	₩ 6,004	₩ -	₩ -	₩ 7,693,118
Financial assets designated at fair value through profit or loss	129,535	-	-	-	-	129,535
Available-for-sale financial assets	21,655,179	123,614	28,652	-	-	21,807,445
Held-to-maturity financial assets	8,427,498	-	-	-	-	8,427,498
	₩ 36,525,701	₩1,497,239	₩ 34,656	₩ -	₩ -	₩ 38,057,596

(In millions of Korean won)

	2015					
	Grade 1	**Grade 2**	**Grade 3[1]**	**Grade 4**	**Grade 5**	**Total**
Financial assets held for trading	₩ 4,901,368	₩ 1,378,097	₩ 8,004	₩ -	₩ -	₩ 6,287,469
Financial assets designated at fair value through profit or loss	70,198	-	-	-	-	70,198
Available-for-sale financial assets	17,885,148	342,987	65,398	-	-	18,293,533
Held-to-maturity financial assets	11,748,794	-	-	-	-	11,748,794
	₩ 34,605,508	₩ 1,721,084	₩ 73,402	₩ -	₩ -	₩ 36,399,994

[1] As there is no foreign credit rating, it is classified as Grade 3.

The credit qualities of securities excluding equity securities according to the credit ratings by external rating agencies are as follows:

Credit quality	Domestic			Foreign		
	KIS	**NICE P&I**	**FN**	**S&P**	**Fitch-IBCA**	**Moody's**
Grade 1	AA0 to AAA	AA0 to AAA	AA0 to AAA	A- to AAA	A- to AAA	A3 to Aaa
Grade 2	A- to AA-	A- to AA-	A- to AA-	BBB- to BBB+	BBB- to BBB+	Baa3 to Baa1
Grade 3	BBB0 to BBB+	BBB0 to BBB+	BBB0 to BBB+	BB to BB+	BB to BB+	Ba2 to Ba1
Grade 4	BB0 to BBB-	BB0 to BBB-	BB0 to BBB-	B+ to BB-	B+ to BB-	B1 to Ba3
Grade 5	BB- or under	BB- or under	BB- or under	B or under	B or under	B2 or under

Debt securities' credit qualities denominated in Korean won are based on the lowest credit rating by the three domestic credit rating agencies above, and those denominated in foreign currencies are based on the lowest credit ratings by the three foreign credit rating agencies above.

4.2.6 Credit Risk Mitigation of Derivative Financial Instruments

A quantification of the extent to which collateral mitigates credit risk of derivative financial instruments as of December 31, 2016 and 2015, is as follows:

(In millions of Korean won)	**2016**	**2015**
Deposits and savings, securities and others	₩ 444,170	₩ 424,559

4.2.7 Credit Risk Concentration Analysis

Details of the Group's loans by country as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016					
	Retail	**Corporate**	**Total**	**%**	**Allowances**	**Carrying amount**
Korea	₩ 123,804,999	₩ 111,399,307	₩235,204,306	98.76	₩ (1,554,872)	₩233,649,434
China	-	1,324,839	1,324,839	0.56	(23,288)	1,301,551
Japan	1,352	90,977	92,329	0.04	(10,384)	81,945
United States	-	984,472	984,472	0.41	(2,031)	982,441
Europe	1	206,580	206,581	0.09	(1,719)	204,862
Others	70,976	263,160	334,136	0.14	(3,317)	330,819
Total	₩ 123,877,328	₩ 114,269,335	₩238,146,663	100.00	₩ (1,595,611)	₩236,551,052

(In millions of Korean won)

	2015					
	Retail	**Corporate**	**Total**	**%**	**Allowances**	**Carrying amount**
Korea	₩ 115,924,173	₩ 106,429,100	₩222,353,273	98.93	₩ (1,983,058)	₩220,370,215
China	30	905,693	905,723	0.40	(17,674)	888,049
Japan	1,737	138,278	140,015	0.06	(21,404)	118,611
United States	-	925,391	925,391	0.41	(1,056)	924,335
Europe	1	180,429	180,430	0.08	(513)	179,917
Others	40,644	218,467	259,111	0.12	(2,174)	256,937
Total	₩ 115,966,585	₩ 108,797,358	₩224,763,943	100.00	₩ (2,025,879)	₩222,738,064

Details of the Group's corporate loans by industry as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016			
	Loans	**%**	**Allowances**	**Carrying amount**
Financial institutions	₩ 8,789,886	7.69	₩ (4,170)	₩ 8,785,716
Manufacturing	36,381,882	31.85	(530,456)	35,851,426
Service	47,905,220	41.92	(298,079)	47,607,141
Wholesale and retail	13,865,864	12.13	(108,688)	13,757,176
Construction	2,895,971	2.53	(291,646)	2,604,325
Public	855,715	0.75	(6,307)	849,408
Others	3,574,797	3.13	(22,996)	3,551,801
	₩ 114,269,335	100.00	₩ (1,262,342)	₩ 113,006,993

(In millions of Korean won)

	2015			
	Loans	%	Allowances	Carrying amount
Financial institutions	₩ 8,591,217	7.90	₩ (12,016)	₩ 8,579,201
Manufacturing	35,333,785	32.48	(801,080)	34,532,705
Service	43,890,888	40.34	(338,056)	43,552,832
Wholesale and retail	13,445,957	12.36	(151,337)	13,294,620
Construction	3,373,093	3.10	(265,776)	3,107,317
Public	783,767	0.72	(5,221)	778,546
Others	3,378,651	3.10	(19,979)	3,358,672
	₩ 108,797,358	100.00	₩ (1,593,465)	₩ 107,203,893

Details of the Group's retail loans by type as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016			
	Loans	%	Allowances	Carrying amount
Housing purpose	₩ 58,724,113	47.41	₩ (17,939)	₩ 58,706,174
General purpose	65,153,215	52.59	(315,330)	64,837,885
	₩ 123,877,328	100.00	₩ (333,269)	₩ 123,544,059

(In millions of Korean won)

	2015			
	Loans	%	Allowances	Carrying amount
Housing purpose	₩ 53,674,493	46.28	₩ (23,345)	₩ 53,651,148
General purpose	62,292,092	53.72	(409,069)	61,883,023
	₩ 115,966,585	100.00	₩ (432,414)	₩ 115,534,171

Details of the Group's securities excluding equity securities and derivative financial instruments by industry as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	
	Amount	%
Financial assets held for trading		
Government and government funded institutions	₩ 2,780,010	36.14
Finance and Insurance	3,880,523	50.44
Others	1,032,585	13.42
	7,693,118	100.00
Financial assets designated at fair value through profit or loss		
Finance and Insurance	129,535	100.00
	129,535	100.00
Derivative financial assets		
Government and government funded institutions	91,705	3.28
Finance and Insurance	2,501,525	89.45
Others	203,215	7.27
	2,796,445	100.00
Available-for-sale financial assets		
Government and government funded institutions	9,394,127	43.08
Finance and Insurance	11,099,951	50.90
Others	1,313,367	6.02
	21,807,445	100.00
Held-to-maturity financial assets		
Government and government funded institutions	3,166,355	37.57
Finance and Insurance	5,110,783	60.64
Others	150,360	1.79
	8,427,498	100.00
	₩ 40,854,041	

(In millions of Korean won)	2015	
	Amount	%
Financial assets held for trading		
Government and government funded institutions	₩ 1,953,030	31.06
Finance and Insurance	3,352,106	53.32
Others	982,333	15.62
	6,287,469	100.00
Financial assets designated at fair value through profit or loss		
Finance and Insurance	70,198	100.00
	70,198	100.00
Derivative financial assets		
Government and government funded institutions	56,652	2.59
Finance and Insurance	1,917,163	87.70
Others	212,195	9.71
	2,186,010	100.00
Available-for-sale financial assets		

Government and government funded institutions	5,223,923	28.56
Finance and Insurance	11,557,597	63.18
Others	1,512,013	8.26
	18,293,533	100.00
Held-to-maturity financial assets		
Government and government funded institutions	5,219,388	44.42
Finance and Insurance	6,168,345	52.50
Others	361,061	3.08
	11,748,794	100.00
	₩ 38,586,004	

Details of the Group’s securities excluding equity securities and derivative financial instruments by country, as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	
	Amount	**%**
Financial assets held for trading		
Korea	₩ 7,468,314	97.08
Others	224,804	2.92
	7,693,118	100.00
Financial assets designated at fair value through profit or loss		
Korea	129,535	100.00
	129,535	100.00
Derivative financial assets		
Korea	1,955,822	69.94
United States	242,763	8.68
United Kingdom	117,318	4.20
France	202,001	7.22
Others	278,541	9.96
	2,796,445	100.00
Available-for-sale financial assets		
Korea	21,377,838	98.03
Others	429,607	1.97
	21,807,445	100.00
Held-to-maturity financial assets		
Korea	7,279,423	86.38
Others	1,148,075	13.62
	8,427,498	100.00
	₩ 40,854,041	

(In millions of Korean won)	2015	
	Amount	**%**
Financial assets held for trading		
Korea	₩ 6,255,711	99.49
Others	31,758	0.51
	6,287,469	100.00
Financial assets designated at fair value through profit or loss		
Korea	70,198	100.00
	70,198	100.00
Derivative financial assets		
Korea	1,198,321	54.82
United States	297,323	13.60
United Kingdom	227,235	10.40
France	195,005	8.92
Others	268,126	12.26
	2,186,010	100.00
Available-for-sale financial assets		
Korea	17,958,267	98.17
Others	335,266	1.83
	18,293,533	100.00
Held-to-maturity financial assets		
Korea	11,373,754	96.81
Others	375,040	3.19
	11,748,794	100.00
	₩ 38,586,004	

The counterparties to the financial assets under due from financial institutions and financial instruments indexed to the price of gold within financial assets held for trading and derivatives are in the financial and insurance industries which have high credit ratings.

4.3 Liquidity risk

4.3.1 Overview of Liquidity Risk

Liquidity risk is the risk of insolvency or loss due to a disparity between the inflow and outflow of funds, unexpected outflow of funds, and obtaining funds at a high price or disposing of securities at an unfavorable price due to lack of available funds. The Group manages its liquidity risk through analysis of the contractual maturity of interest-bearing assets and liabilities, assets and liabilities related to the other in and outflows, and off-balance sheet items related to the inflows and outflows of currency derivative instruments and others.

4.3.2. Liquidity Risk Management and Indicator

The liquidity risk is managed by ALM ('Asset Liability Management') and related guidelines which are applied to the risk management policies and procedures that addresses all the possible risks that arise from the overall business of the Group.

The Group has to establish the liquidity risk management strategy including the objectives of liquidity risk management, management policies and internal control system, and obtain approval from Risk

Management Committee. Risk Management Committee operates the Risk Management Council for the purpose of efficient risk management, monitors establishment and enforcement of policies based on risk management strategy.

For the purpose of liquidity management, the liquidity gap ratio, liquidity ratio, maturity gap ratio and the results of the stress testing related to liquidity risk on transactions affecting the inflows and outflows of funds and transactions of off-balance sheet items are measured, managed and reported to the Risk Management Committee and Risk Management Council on a regular basis.

4.3.3. Analysis of Remaining Contractual Maturity of Financial Assets and Liabilities

Cash flows disclosed below are undiscounted contractual principal and interest to be received (paid) and, thus, differ from the amounts in the consolidated financial statements which are based on the present value of expected cash flows. The amount of interest to be received or paid on floating rate assets and liabilities is measured on the assumption that the current interest rate would be the same through maturity.

The remaining contractual maturity of financial assets and liabilities, excluding derivatives held for cash flow hedging, as of December 31, 2016 and 2015, is as follows:

(In millions of Korean won)	**2016**						
	On demand	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Financial assets							
Cash and due from financial institutions[1]	₩ 6,146,827	₩ 158,794	₩ 302,774	₩ 221,887	₩ -	₩ -	₩ 6,830,282
Financial assets held for trading[2]	7,826,697	-	-	-	-	-	7,826,697
Financial assets designated at fair value through profit or loss[2]	129,535	-	-	-	-	-	129,535
Derivatives held for trading[2]	2,736,840	-	-	-	-	-	2,736,840
Derivatives held for fair value hedging[3]	-	4,039	1,722	1,791	(3,473)	53,185	57,264
Loans	-	14,900,098	23,401,467	82,205,491	64,172,410	88,571,195	273,250,661
Available-for-sale financial assets[4]	6,014,328	535,451	1,542,125	5,506,765	13,070,553	2,365,520	29,034,742
Held-to-maturity financial assets	-	172,694	408,549	1,035,711	4,918,815	3,426,234	9,962,003
Other financial assets	-	3,225,789	-	1,122,047	-	-	4,347,836
	₩ 22,854,227	₩ 18,996,865	₩25,656,637	₩90,093,692	₩82,158,305	₩94,416,134	₩334,175,860
Financial liabilities							
Financial liabilities held for trading[2]	₩ 73,238	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 73,238
Derivatives held for trading[2]	2,769,675	-	-	-	-	-	2,769,675
Derivatives held for fair value hedging[3]	-	3,462	(5,306)	(8,333)	(39,870)	-	(50,047)
Deposits[5]	114,690,384	13,828,525	24,751,241	71,868,404	10,294,522	3,790,529	239,223,605
Debts	1,027	5,504,309	2,218,672	4,120,280	4,224,025	116,023	16,184,336

(In millions of Korean won)	2016						
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Debentures	52,188	1,281,867	1,383,926	3,773,687	7,192,288	2,306,476	15,990,432
Other financial liabilities	-	9,522,926	717	77,912	10,758	82,421	9,694,734
	₩117,586,512	₩30,141,089	₩28,349,250	₩79,831,950	₩21,681,723	₩6,295,449	₩283,885,973
Off-balance sheet items							
Commitments[6]	₩ 54,261,648	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 54,261,648
Financial guarantee contracts[7]	3,361,307	-	-	-	-	-	3,361,307
	₩ 57,622,955	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 57,622,955

(In millions of Korean won)	2015						
	On demand	Up to 1 month	1-3 months	3-12 Months	1-5 years	Over 5 years	Total
Financial assets							
Cash and due from financial institutions[1]	₩ 6,032,676	₩ 246,719	₩ 727,859	₩ 662,142	₩ -	₩ -	₩ 7,669,396
Financial assets held for trading[2]	6,417,419	-	-	-	-	-	6,417,419
Financial assets designated at fair value through profit or loss[2]	70,198	-	-	-	-	-	70,198
Derivatives held for trading[2]	2,093,446	-	-	-	-	-	2,093,446
Derivatives held for fair value hedging[3]	-	5,391	18,885	13,558	38,972	111,268	188,074
Loans	-	14,899,299	21,090,406	77,358,018	59,071,999	87,354,815	259,774,537
Available-for-sale financial assets[4]	2,710,980	838,524	1,623,536	4,619,917	10,889,821	1,326,841	22,009,619
Held-to-maturity financial assets	-	380,043	1,052,763	2,342,242	6,857,869	2,582,091	13,215,008
Other financial assets	-	5,365,209	1,438	1,160,950	-	-	6,527,597
	₩ 17,324,719	₩ 21,735,185	₩ 24,514,887	₩ 86,156,827	₩ 76,858,661	₩ 91,375,015	₩317,965,294
Financial liabilities							
Financial liabilities held for trading[2]	₩ 69,465	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 69,465
Derivatives held for trading[2]	2,116,752	-	-	-	-	-	2,116,752
Derivatives held for fair value hedging[3]	-	1,981	945	(10,279)	(25,096)	(35,050)	(67,499)
Deposits[5]	100,662,818	14,813,368	25,149,270	73,490,239	10,906,981	3,158,015	228,180,691
Debts	668	3,847,167	1,821,523	4,363,821	3,942,347	537,209	14,512,735
Debentures	68,852	401,430	768,923	5,164,794	8,065,069	2,761,403	17,230,471
Other financial liabilities	-	6,908,783	807	72,725	11,330	84,209	7,077,854
	₩102,918,555	₩ 25,972,729	₩ 27,741,468	₩ 83,081,300	₩ 22,900,631	₩ 6,505,786	₩269,120,469
Off-balance sheet items							
Commitments[6]	₩ 56,752,653	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 56,752,653
Financial guarantee contracts[7]	4,014,116	-	-	-	-	-	4,014,116
	₩ 60,766,769	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 60,766,769

[1] The amounts of ₩ 7,859,440 million and ₩ 6,905,996 million, which are restricted amount due from the financial institutions as of December 31, 2016 and 2015, respectively, are excluded.

[2] Financial instruments held for trading, financial assets designated at fair value through profit or loss, financial liabilities held for trading and derivatives held for trading are not managed by contractual maturity because they are held for trading or redemption before maturity. Therefore, the carrying amounts are classified as the 'On demand' category. However, the cash flows of the embedded derivatives (e.g. conversion options and others) which are separated from their host contracts in accordance with the requirement of Korean IFRS 1039, are considered in the cash flows of the host contracts.
[3] Cash flows of derivative instruments held for fair value hedging are shown at net amounts of cash inflows and outflows by remaining contractual maturity.
[4] Equity investments in financial assets classified as available-for-sale are generally included in the 'On demand' category as most are available for sale at anytime. However, in the case of equity investments which are restricted for sale, these are classified in the maturity section to which the end of the restriction period applies.
[5] Deposits that are contractually repayable on demand or on short notice are classified under the 'On demand' category.
[6] Unused lines of credit within commitments are included under the 'On demand' category as payments can be required upon request.
[7] Financial guarantee contracts are included under the 'On demand' category as payments can be required upon request.

The remaining contractual cash flows of derivatives held for cash flow hedging as of December 31, 2016, are as follows:

(In millions of Korean won)	2016					
	Up to 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Cash flow to be received of net settlement derivatives	₩ 69	₩ -	₩ 152	₩ -	₩ -	₩ 221
Cash flow to be paid of net settlement derivatives	60	3	-	-	-	63

There were no balances of derivatives held for cash flow hedging as of December 31, 2015.

4.4 Market risk

4.4.1 Concept

Market risk is the risk of possible losses which arise from changes in market factors, such as interest rate, stock price, foreign exchange rate and other market factors, and incurred in securities, derivatives and others. The most significant risks associated with trading positions are interest rate risks and currency risks, and other risks include stock price risks. In addition, the Group is exposed to interest rate risks associated with non-trading positions. The Group classifies exposures to market risk into either trading or non-trading positions for managerial purpose.

4.4.2 Risk management

The Group sets internal capital limits for market risk and interest rate risk and monitors the risks to manage the risk of trading and non-trading positions. The Group maintains risk management systems and procedures, such as trading policies and procedures, market risk management guidelines for trading positions and ALM risk management guidelines for non-trading positions in order to manage market risk efficiently. The procedures mentioned are implemented with approval from the Risk Management Committee and Risk Management Council.

The Group establishes market risk management policy, sets position limits, loss limits and VaR limits of each business group and approves newly developed products through its Risk Management Council. The Market Risk Management Subcommittee, which is chaired by the Chief Risk Officer (CRO), is the decision maker and sets position limits, loss limits, VaR limits, sensitivity limits and scenario loss limits for each division, at the level of each individual business department.

The Asset-Liability Management Committee (ALCO) determines the operational standards of interest and commission, the details of establishment and prosecution of the Asset Liability Management (ALM) policies and enacts and amends relevant guidelines. The Risk Management Council monitors the establishment and enforcement of ALM risk management policies and enact and amend ALM risk management guidelines. The interest rate risk limit is set based on the future assets/liabilities position and interest rate volatility estimation reflects the annual work plan. The Financial Planning Department and Risk Management Department measure and monitor the interest risk status and limits on a regular basis. The status and limits of interest rate risks, such as interest rate EaR, duration gap and interest rate VaR, are reported to the ALCO and Risk Management Council on a monthly basis and to the Risk Management Committee on a quarterly basis. To ensure adequacy of interest rate and liquidity risk management, the Risk Management Department assigns the limits, monitors and reviews the risk management procedures and tasks conducted by the Financial Planning Department. Also, the Risk Management Department independently reports related information to management.

4.4.3 Trading Position

Definition of a trading position

Trading positions subject to market risk management are interest rate, stock price positions for short-term profit-taking and others. Also, they include all foreign exchange rate positions. The basic requirements of trading positions are defined under the Trading Policy and Guideline, are as follows:

- The trading position is not restricted for purchase and sale, is measured daily at fair value, and its significant inherent risks are able to be hedged in the market.
- The criteria for classification as a trading position are clearly defined in the Trading Policy and guideline, and separately managed by the trading department.
- The trading position is operated in accordance with the documented trading strategy and managed through position limits.
- The operating department or professional dealers have an authority to enforce a deal on the trading position within predetermined limits without pre-approval.
- The trading position is reported periodically to management for the purpose of the Group’s risk management.

Observation method on market risk arising from trading positions

The Group calculates VaR to measure the market risk by using market risk management systems on the entire trading portfolio. Generally, the Group manages market risk on the trading portfolio. In addition, the Group controls and manages the risk of derivative trading based on the regulations and guidelines formulated by the Financial Supervisory Service.
Value at Risk (VaR)

i. Value at Risk (VaR)

The Group uses the Value-at-Risk methodology to measure the market risk of trading positions.

The Group now uses the ten-day VaR, which estimates the maximum amount of loss that could occur in ten days under an historical simulation model which is considered to be a full valuation method. The distributions of portfolio's value changes are estimated based on the data over the previous 250 business days, and ten-day VaR is calculated by subtracting net present market value from the value measured at a 99% confident level of portfolio's value distribution results.

VaR is a commonly used market risk measurement technique. However, the method has some shortcomings. VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movements are, however, not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and magnitude of the actual losses may vary depending on the assumptions made at the time of the calculation. In addition, the time periods used for the model, generally one or ten days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or too long, the VaR results may understate or overstate the potential loss.

The Group uses an internal model (VaR) to measure general risk, and a standard method to measure each individual risk. When the internal model is not permitted for certain market risk, the Group uses the standard method. Therefore, the market risk VaR may not reflect the market risk of each individual risk and some specific positions.

ii. Back-Testing

Back-testing is conducted on a daily basis to validate the adequacy of the VaR model. In back-testing, the Group compares both the actual and hypothetical profit and loss with the VaR calculations.

iii. Stress Testing

Stress testing is carried out to analyze the impact of abnormal market situations on the trading and available-for-sale portfolio. It reflects changes in interest rates, stock prices, foreign exchange rates, implied volatilities of options and other risk factors that have significant influence on the value of the portfolio. The Group uses historical scenarios and hypothetical scenarios for the analysis of abnormal market situations. Stress testing is performed at least once every quarter.

VaR at a 99%, excluding Stressed Value at Risks, confidence level of interest rate, stock price and foreign exchange rate risk for trading positions with a ten-day holding period during 2016 and 2015, is as follows:

(In millions of Korean won)	2016			
	Average	**Minimum**	**Maximum**	**Ending**
Interest rate risk	₩ 15,683	₩ 10,817	₩ 19,538	₩ 14,906
Stock price risk	1,757	726	2,269	1,201
Foreign exchange rate risk	16,493	10,123	22,206	10,123
Deduction of diversification effect				(6,477)
Total VaR	₩ 19,018	₩ 11,558	₩ 28,519	₩ 19,753

(In millions of Korean won)	2015			
	Average	**Minimum**	**Maximum**	**Ending**
Interest rate risk	₩ 18,403	₩ 10,022	₩ 27,134	₩ 15,788
Stock price risk	1,711	866	3,880	2,040
Foreign exchange rate risk	12,429	8,322	21,935	21,935
Deduction of diversification effect				(16,577)
Total VaR	₩ 23,930	₩ 11,730	₩ 33,885	₩ 23,186

The required equity capital using the standard method related to the positions which are not measured by VaR as of December 31, 2016 and 2015, is as follows:

(In millions of Korean won)	**2016**	**2015**
Interest rate risk	₩ 15,162	₩ 34
Stock price risk	4,817	118
	₩ 19,979	₩ 152

Details of risk factors

i. Interest rate risk

Trading position interest rate risk usually arises from debt securities denominated in Korean won. The Group's trading strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates. The Group manages interest rate risk on major trading portfolios using market value-based tools such as VaR and sensitivity analysis (Price Value of a Basis Point: PVBP).

ii. Stock price risk

Stock price risk only arises from trading securities denominated in Korean won as the Group does not have any trading exposure to shares denominated in foreign currencies. The trading securities portfolios in Korean won are composed of exchange-traded stocks and derivative instruments linked to stock with strict limits on diversification.

iii. Foreign exchange rate risk

Foreign exchange rate risk arises from holding assets and liabilities denominated in foreign currency and foreign currency derivatives. Net foreign currency exposure mostly occurs from the foreign assets and liabilities which are denominated in US dollars and Chinese yuan. The Group sets both loss limits and net foreign currency exposure limits and manages comprehensive net foreign exchange exposures which consider both trading and non-trading portfolios.

4.4.4 Non-trading Position

i. Definition of non-trading position

Managed interest rate risk in non-trading position includes on or off-balance sheet assets, liabilities and derivatives that are sensitive to interest rate, except trading position for market risk. The interest rate sensitive assets and liabilities are interest-bearing assets and liabilities that create interest income and expenses.

ii. Observation method on market risk arising from non-trading position

Interest rate risk occurs due to mismatches on maturities and interest rate reset periods between interest-bearing assets and liabilities. The Group manages the risk through measuring and managing interest rate VaR and EaR that are maximum expected decreases in net asset value (NPV) and net interest income (NII) for one year, respectively, arising from unfavorable changes in market interest rate.

iii. Interest Rate VaR

Interest rate VaR is the maximum possible loss due to interest rate risk under a normal distribution at a 99.90%(December 31, 2015 : 99.94%) confidence level. The measurement results of risk as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Interest Rate VaR	₩ 75,990	₩ 94,500

4.4.5 Financial Assets and Liabilities in Foreign Currencies

Financial assets and liabilities in foreign currencies as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016						
	USD	**JPY**	**EUR**	**GBP**	**CNY**	**Others**	**Total**
Financial assets							
Cash and due from financial institutions	₩ 2,059,412	₩ 208,000	₩ 147,467	₩ 17,224	₩ 600,682	₩ 257,095	₩ 3,289,880
Financial assets held for trading	158,599	123,733	2,545	-	-	-	284,877
Derivatives held for trading	71,843	-	-	-	-	-	71,843
Derivatives held for hedging	5,917	-	-	-	-	-	5,917
Loans	10,762,600	342,100	895,208	5,798	552,966	178,361	12,737,033
Available-for-sale financial assets	1,508,838	91,017	-	-	35,873	871	1,636,599
Held-to-maturity financial assets	1,148,075	-	-	-	-	-	1,148,075
Other financial assets	916,058	245,827	35,981	30,792	172,437	85,899	1,486,994
	₩16,631,342	₩ 1,010,677	₩ 1,081,201	₩ 53,814	₩ 1,361,958	₩ 522,226	₩ 20,661,218
Financial liabilities							
Derivatives held for trading	₩ 73,379	₩ -	₩ 29	₩ -	₩ -	₩ -	₩ 73,408
Derivatives held for hedging	63,634	-	-	-	-	-	63,634
Deposits	6,965,320	596,607	457,418	52,719	791,027	399,516	9,262,607
Debts	6,828,519	169,507	83,105	279	85,123	37,492	7,204,025
Debentures	3,468,940	-	-	-	-	-	3,468,940
Other financial liabilities	1,447,380	52,275	534,224	1,429	176,381	50,735	2,262,424
	18,847,172	818,389	1,074,776	54,427	1,052,531	487,743	22,335,038
Off-balance sheet items	₩13,072,623	₩ 822	₩ 1,268	₩ -	₩ 131,210	₩75,500	₩13,281,423

(In millions of Korean won)	2015						
	USD	JPY	EUR	GBP	CNY	Others	Total
Financial assets							
Cash and due from financial institutions	₩ 2,008,023	₩ 227,546	₩ 114,154	₩ 14,891	₩ 91,694	₩ 182,757	₩ 2,639,065
Financial assets held for trading	35,025	-	2,616	-	-	-	37,641
Derivatives held for trading	64,690	-	354	-	-	-	65,044
Derivatives held for hedging	8,610	-	-	-	-	-	8,610
Loans	12,873,728	507,615	458,483	19,365	4,329	136,560	14,000,080
Available-for-sale financial assets	1,245,415	60,591	-	-	-	871	1,306,877
Held-to-maturity financial assets	375,040	-	-	-	-	-	375,040
Other financial assets	981,637	182,766	216,546	5,381	192,667	145,218	1,724,215
	₩17,592,168	₩ 978,518	₩ 792,153	₩ 39,637	₩ 288,690	₩ 465,406	₩ 20,156,572
Financial liabilities							
Derivatives held for trading	₩ 92,115	₩ -	₩ 458	₩ -	₩ -	₩ -	₩ 92,573
Derivatives held for hedging	21,461	-	-	-	-	-	21,461
Deposits	6,390,919	496,224	384,116	22,674	58,848	374,717	7,727,498
Debts	6,650,235	217,887	143,060	7,916	4,511	110,535	7,134,144
Debentures	3,519,615	-	106,284	-	-	157,337	3,783,236
Other financial liabilities	1,702,027	98,431	160,867	10,454	185,652	26,639	2,184,070
	₩18,376,372	₩812,542	₩794,785	₩ 41,044	₩ 249,011	₩ 669,228	₩20,942,982
Off-balance sheet items	₩14,900,814	₩ 3,612	₩ 1,281	₩ -	₩ 3,190	₩ 81,206	₩14,990,103

4.5 Operational Risk

4.5.1 Concept

The Group defines operational risk as risk of loss resulting from inadequate or failed internal processes, people, systems and external events. The operational risk includes financial and non-financial risks.

4.5.2 Risk Management

The purpose of operational risk management is not only to comply with requirements of regulatory authorities but is also to establish an integrated system to cultivate enterprise culture that values importance of risk management, strengthen internal controls, improve processes and provide with timely feedback to management so that eventually mitigate operational risk of the company. In addition, the Group established Business Continuity Planning (BCP) to ensure critical business functions can be maintained, or restored, in the event of material disruptions arising from internal or external events. It has constructed replacement facilities as well as has carried out full scale test for head office and IT departments to test its BCPs.

4.6 Capital Management

The Group complies with the capital adequacy standard established by the Financial Services Commission. The capital adequacy standard is based on Basel III revised by Basel Committee on Banking Supervision in Bank for International Settlements in June 2011, and was implemented in Korea in December 2013. The Group is required to maintain a minimum Common Equity Tier 1 ratio of at least 4.5%, a minimum Tier 1 ratio of 6.0% and a minimum Total Regulatory Capital of 8.0% as of December 31, 2016. Capital Conservation Buffer of 0.625% and Capital Requirement of Domestic Systemically Important Bank(D-SIB) of 0.25% are additionally applied. Therefore, the Group is required to maintain a capital ratio including a minimum capital ratio and additional capital requirements (a Common Equity Tier 1 Ratio of 5.375% (December 31, 2015 : 4.5%), a Tier 1 Ratio of 6.875% (December 31, 2015 : 6.0%), and a Total Regulatory Capital Ratio of 8.875% (December 31, 2015 : 8.0%)).

The Group's equity capital is classified into three categories in accordance with Detailed Supervisory Regulations on Banking Business:

- Common Equity Tier 1 Capital: Common Equity Tier 1 Capital represents the issued capital that takes the first and proportionately greatest share of any losses and represents the most subordinated claim in liquidation of the Group, and not repaid outside of liquidation. It includes common shares issued, capital surplus, retained earnings, non-controlling interests of consolidated subsidiaries, accumulated other comprehensive income, other capital surplus and others.

- Additional Tier 1 Capital: Additional Tier 1 Capital includes perpetual instruments issued by the Group that meet the criteria for inclusion in Additional Tier 1 capital, and stock surplus resulting from the issue of instruments included in Additional Tier 1 capital and others.

- Tier 2 Capital: Tier 2 Capital represents the capital that takes the proportionate share of losses in the liquidation of the Group. Tier 2 Capital includes a fund raised by issuing subordinated debentures maturing in not less than 5 years that meet the criteria for inclusion in Tier 2 capital, and the allowance for loan losses which are accumulated for assets classified as normal or precautionary in accordance with Regulations on Supervision of Banking Business and others.

Risk-weighted asset means the assets weighted according to the inherent risks in the total assets and the possible losses resulting from the errors of internal process and external events which the Group should cover. The Group calculates risk-weighted asset by each risk (credit risk, market risk, and operational risk) based on Detailed Regulations on Supervision of Banking Business and uses it for its capital ratio calculation. The Group complied with external capital adequacy requirements as of December 31, 2016 and 2015.

In addition to the capital ratio, the Group assesses its adequacy of capital by using the internal assessment and management policy of the capital adequacy. The assessment of the capital adequacy is conducted by comparing available capital (actual amount of available capital) and internal capital (amount of capital enough to cover all significant risks under target credit rate set by the Group). The Group monitors the soundness of finance and provides risk adjusted basis for performance review using the assessment of the capital adequacy. The internal capital is calculated by adding the stress testing results and other required items to the total internal capitals which are calculated for each risk.

The Risk Management Council of the Group determines the Group's risk appetite and allocates internal capital by risk type and business group. Each business group efficiently operates its capital within range of granted internal capital. The Risk Management Department of the Group monitors a management of the limit on internal capital and reports the results to management and the Risk Management Council. The Group maintains the adequacy of capital through proactive review and approval of the Risk Management Committee when the internal capital is expected to exceed the limits.

Details of the Group's capital adequacy calculation in line with Basel III requirements as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Equity Capital	₩ 24,578,862	₩ 23,685,782
Tier I Capital	22,343,308	20,331,795
Common Equity Tier 1 Capital	22,343,308	20,331,795
Tier II Capital	2,235,554	3,353,987
Risk-weighted assets:	150,648,459	147,972,883
Credit risk[1]	136,469,707	133,389,054
Market risk[2]	3,883,542	4,189,408
Operational risk[3]	10,295,210	10,394,421
Equity Capital (%):	16.32	16.01
Tier I Capital (%)	14.83	13.74
Common Equity Tier 1 Capital (%)	14.83	13.74

[1] Credit risk-weighted assets are measured using the Internal Rating-Based Approach and Standardized Approach.
[2] Market risk-weighted assets are measured using the Internal Model-Based Approach and Standardized Approach.
[3] Operational risk-weighted assets are measured using the Advanced Measurement Approach.

5. Segment Information

5.1 Overall Segment Information and Business Segments

The Group is organized into Corporate Banking, Retail Banking and Other Activities. These business divisions are based on the nature of the products and services provided, the type or class of customer, and the Group’s management organization.

- Corporate banking : The activities within this segment include providing credit, deposit products and other related financial services to large, small and medium-sized enterprises and SOHOs.
- Retail banking : The activities within this segment include providing credit, deposit products and other related financial services to individuals and households.
- Other activities : The activities within this segment include trading activities in securities and derivatives, funding and other supporting activities.

Financial information by business segment as of and for the year ended December 31, 2016 is as follows:

(In millions of Korean won)	2016				
	Corporate Banking	**Retail Banking**	**Others**	**Intra-group Adjustment**	**Total**
Operating revenues from external customers	₩1,797,670	₩2,248,035	₩1,666,904	₩ -	₩5,712,609
Segment operating revenues(expenses)	14,808	-	(13,081)	(1,727)	-
	1,812,478	2,248,035	1,653,823	(1,727)	5,712,609
Net interest income	2,286,347	2,353,232	189,372	(41)	4,828,910
Interest income	3,297,791	3,740,601	868,379	(12,615)	7,894,156
Interest expense	(1,011,444)	(1,387,369)	(679,007)	12,574	(3,065,246)
Net fee and commission income	231,182	504,259	367,974	(15,564)	1,087,851
Fee and commission income	293,336	583,048	453,079	(19,081)	1,310,382
Fee and commission expense	(62,154)	(78,789)	(85,105)	3,517	(222,531)
Net gains(losses) on financial assets/ liabilities at fair value through profit or loss	(1,166)	-	198,064	-	196,898
Net other operating income(expenses)	(703,885)	(609,456)	898,413	13,878	(401,050)
General and administrative expenses	(950,038)	(2,102,384)	(1,217,963)	1,436	(4,268,949)
Operating profit before provision for credit losses	862,440	145,651	435,860	(291)	1,443,660
Provision(reversal) for credit losses	(278,277)	(2,615)	32,925	(6,362)	(254,329)
Operating profit	584,163	143,036	468,785	(6,653)	1,189,331
Share of profit of associates	-	-	17,615	-	17,615
Net other non-operating income(expenses)	(1,300)	-	90,551	(39,940)	49,311
Segment profit before income tax expense	582,863	143,036	576,951	(46,593)	1,256,257
Income tax expense	(140,910)	(34,614)	(113,231)	(3,246)	(292,001)
Profit for the period	441,953	108,422	463,720	(49,839)	964,256
Profit attributable to shareholder of the parent company	441,953	108,422	463,720	(49,839)	964,256
Profit attributable to non-controlling interests	-	-	-	-	-
Total assets[1]	109,500,342	122,806,490	78,135,238	(3,375,700)	307,066,370
Total liabilities[1]	91,685,643	140,082,958	53,951,579	(1,978,812)	283,741,368

[1] Amounts before intra-group transaction adjustment.

Financial information by business segment as of and for the year ended December 31, 2016 is as follows:

(In millions of Korean won)	2015				
	Corporate Banking	**Retail Banking**	**Others**	**Intra-group Adjustment**	**Total**
Operating revenues from external customers	₩1,720,023	₩2,115,837	₩1,897,562	₩ -	₩5,733,422
Segment operating revenues(expenses)	(630)	-	11,059	(10,429)	-
	1,719,393	2,115,837	1,908,621	(10,429)	5,733,422
Net interest income	2,320,217	2,102,326	289,022	182	4,711,747
Interest income	3,513,603	3,858,102	1,028,870	(12,193)	8,388,382
Interest expense	(1,193,386)	(1,755,776)	(739,848)	12,375	(3,676,635)
Net fee and commission income	232,708	569,832	370,767	(16,934)	1,156,373
Fee and commission income	296,498	671,184	421,946	(17,574)	1,372,054
Fee and commission expense	(63,790)	(101,352)	(51,179)	640	(215,681)
Net gains(losses) on financial assets/ liabilities at fair value through profit or loss	37	-	286,991	-	287,028
Net other operating income(expenses)	(833,569)	(556,321)	961,841	6,323	(421,726)
General and administrative expenses	(847,029)	(2,004,800)	(960,183)	191	(3,811,821)
Operating profit before provision for credit losses	872,364	111,037	948,438	(10,238)	1,921,601
Provision(reversal) for credit losses	(715,926)	(80,213)	54,428	91	(741,620)
Operating profit	156,438	30,824	1,002,866	(10,147)	1,179,981
Share of profit of associates	-	-	7,812	-	7,812
Net other non-operating income	1,317	-	202,783	(10,664)	193,436
Segment profit before income tax expense	157,755	30,824	1,213,461	(20,811)	1,381,229
Income tax expense	(38,973)	(7,460)	(214,275)	(13,283)	(273,991)
Profit for the period	118,782	23,364	999,186	(34,094)	1,107,238
Profit attributable to shareholder of the parent company	118,782	23,364	999,186	(34,094)	1,107,238
Profit attributable to non-controlling interests	-	-	-	-	-
Total assets[1]	103,042,327	114,849,508	75,393,978	(3,007,906)	290,277,907
Total liabilities[1]	89,293,741	130,631,229	49,263,959	(1,658,233)	267,530,696

[1] Amounts before intra-group transaction adjustment.

5.2 Services and Geographical Segments

5.2.1 Services Information

Operating revenues from external customers by services for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Corporate banking service	₩ 1,797,670	₩ 1,720,023
Retail banking service	2,248,035	2,115,837
Other service	1,666,904	1,897,562
	₩ 5,712,609	₩ 5,733,422

5.2.2 Geographical Information

Geographical operating revenues from external customers for the years ended December 31, 2016 and 2015, and major non-current assets as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016		2015	
	Revenues from external customers	Major non-current assets	Revenues from external customers	Major non-current assets
Domestic	₩ 5,621,130	₩ 3,691,841	₩ 5,657,170	₩ 3,493,248
United States	10,955	282	11,847	276
New Zealand	5,422	128	5,143	209
China	48,162	3,925	30,590	6,949
Japan	5,624	1,964	10,709	1,547
Vietnam	4,220	278	3,358	239
Cambodia	6,109	1,216	5,072	350
United Kingdom	10,987	149	9,533	130
Intra-group adjustment	-	1,202	-	1,202
	₩ 5,712,609	₩ 3,700,985	₩ 5,733,422	₩ 3,504,150

6. Financial Assets and Financial Liabilities

6.1 Classification and Fair Value

Carrying amount and fair values of financial assets and liabilities as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and due from financial institutions	₩ 14,681,846	₩ 14,682,043	₩ 14,562,990	₩ 14,562,700
Financial assets held for trading	7,826,697	7,826,697	6,417,419	6,417,419
Debt securities	7,693,118	7,693,118	6,287,469	6,287,469
Equity securities	61,230	61,230	60,890	60,890
Others	72,349	72,349	69,060	69,060
Financial assets designated at fair value through profit or loss	129,535	129,535	70,198	70,198
Derivative linked securities	129,535	129,535	70,198	70,198
Derivatives held for trading	2,745,979	2,745,979	2,093,458	2,093,458
Derivatives held for hedging	50,466	50,466	92,552	92,552
Loans	236,551,052	236,227,582	222,738,064	222,711,536
Available-for-sale financial assets	27,304,908	27,304,908	21,163,192	21,163,192
Debt securities	21,807,445	21,807,445	18,293,533	18,293,533
Equity securities	5,496,963	5,496,963	2,869,159	2,869,159
Others	500	500	500	500
Held-to-maturity financial assets	8,427,498	8,578,025	11,748,794	12,072,793
Other financial assets	5,021,200	5,021,200	6,887,727	6,887,727
	₩ 302,739,181	₩ 302,566,435	₩ 285,774,394	₩ 286,071,575
Financial liabilities				
Financial liabilities held for trading	₩ 73,238	₩ 73,238	₩ 69,465	₩ 69,465
Derivatives held for trading	2,769,718	2,769,718	2,116,766	2,116,766
Derivatives held for hedging	63,880	63,880	21,957	21,957
Deposits	235,736,034	236,297,685	224,333,507	225,012,816
Debts	15,934,409	15,937,153	14,291,815	14,321,296
Debentures	14,959,692	15,334,856	15,949,134	16,436,457
Other financial liabilities	12,097,059	12,097,068	9,612,261	9,612,273
	₩ 281,634,030	₩ 282,573,598	₩ 266,394,905	₩ 267,591,030

The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The Group discloses the fair value of each class of assets and liabilities in a way that permits it to be compared with its carrying amount at the end of each reporting period. The best evidence of fair value of financial instruments is a quoted price in an active market.

Methods of determining fair value for financial instruments are as follows:

Cash and due from financial institutions	The carrying amounts of cash and demand due from financial institutions and payment due from financial institutions are reasonable approximation of fair values. These financial instruments do not have a fixed maturity and are receivable on demand. Fair value of ordinary due from financial institutions is measured using DCF model (Discounted Cash Flow Model).
Investment securities	The fair value of financial instruments that are quoted in active markets is determined using the quoted prices. Fair value is determined through the use of independent third-party pricing services where quoted prices are not available. Pricing services use one or more of the following valuation techniques including DCF Model, FCFE(Free Cash Flow to Equity Model), Comparable Company Analysis, Dividend Discount Model, Risk Adjusted Discount Rate Method, and Net Asset Value Method.
Loans	DCF Model is used to determine the fair value of loans. Fair value is determined by discounting the expected cash flows, which are contractual cash flows adjusted by the expected prepayment rate, at appropriate discount rate.
Derivatives	For exchange traded derivatives, quoted price in an active market is used to determine fair value and for OTC derivatives, fair value is determined using valuation techniques. The Group uses internally developed valuation models that are widely used by market participants to determine fair values of plain OTC derivatives including options, interest rate swaps, and currency swaps, based on observable market parameters. However, some complex financial instruments are valued using appropriate models developed from generally accepted market valuation models including the Finite Difference Method, the Monte Carlo Simulation and the Tree model or independent third-party valuation service. For OTC derivatives, the credit risk of counterparty and the Group's own credit risk are applied through Credit Valuation Adjustment(CVA).
Deposits	The carrying amount of demand deposits is regarded as representative of fair value because they do not have a fixed maturity and are payable on demand. Fair value of time deposits is determined using a DCF model. Fair value is determined by discounting the expected cash flows, which are contractual cash flows adjusted by the expected prepayment rate, at an appropriate discount rate.
Debts	The carrying amount of overdraft in foreign currency is regarded as representative of fair value because they do not have a fixed maturity and are payable on demand. Fair value of other debts is determined using a DCF model discounting contractual future cash flows at an appropriate discount rate.
Debentures	Fair value is determined by using the valuations (DCF Model) of independent third-party pricing services, which are calculated using market inputs.

Other financial assets and other financial liabilities	The carrying amounts are reasonable approximation of fair values. These financial instruments are temporary accounts used for other various transactions and their maturities are relatively short or not defined. However, fair value of finance lease liabilities is measured using a DCF model.

Fair value hierarchy

The Group believes that valuation methods used for measuring the fair values of financial instruments are reasonable and that the fair values recognized in the statements of financial position are appropriate. However, the fair values of the financial instruments recognized in the statements of financial position may be different if other valuation methods or assumptions are used. Additionally, as there is a variety of valuation techniques and assumptions used in measuring fair value, it may be difficult to reasonably compare the fair value with that of other financial institutions.

The Group classifies and discloses the fair value of the financial instruments into the following three-level hierarchy:

Level 1: The fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: The fair values except for quoted prices included within Level 1 are based on inputs that are observable for the asset or liability, either directly or indirectly.

Level 3: The fair values are based on unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

Fair value hierarchy of financial assets and liabilities measured at fair value in the statements of financial position

The fair value hierarchy of financial assets and liabilities measured at fair value in the statements of financial position as of December 31, 2016 and 2015, is as follows:

	2016			
(In millions of Korean won)	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Debt securities	₩ 2,823,740	₩ 4,869,378	₩ -	₩ 7,693,118
Equity securities	34,131	27,099	-	61,230
Others	72,349	-	-	72,349
	2,930,220	4,896,477	-	7,826,697
Financial assets designated at fair value through profit or loss				
Derivative linked securities	-	-	129,535	129,535
	-	-	129,535	129,535
Derivatives held for trading	-	2,736,032	9,947	2,745,979
Derivatives held for hedging	-	49,003	1,463	50,466
Available-for-sale financial assets				
Debt securities	10,124,521	11,682,924	-	21,807,445
Equity securities[1]	1,001,541	2,649,967	1,845,455	5,496,963
Others	-	500	-	500
	11,126,062	14,333,391	1,845,455	27,304,908
	₩ 14,056,282	₩ 22,014,903	₩ 1,986,400	₩ 38,057,585
Financial liabilities				
Financial liabilities held for trading	₩ 73,238	₩ -	₩ -	₩ 73,238
Derivatives held for trading	-	2,769,596	122	2,769,718
Derivatives held for hedging	-	63,694	186	63,880
	₩ 73,238	₩ 2,833,290	₩ 308	₩ 2,906,836

	2015			
(In millions of Korean won)	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Debt securities	₩ 2,075,176	₩ 4,212,293	₩ -	₩ 6,287,469
Equity securities	32,584	28,306	-	60,890
Others	69,060	-	-	69,060
	2,176,820	4,240,599	-	6,417,419
Financial assets designated at fair value through profit or loss				
Derivative linked securities	-	-	70,198	70,198
	-	-	70,198	70,198
Derivatives held for trading	-	2,092,861	597	2,093,458
Derivatives held for hedging	-	91,341	1,211	92,552
Available-for-sale financial assets				
Debt securities	5,788,898	12,504,635	-	18,293,533
Equity securities[1]	818,227	497,393	1,553,539	2,869,159
Others	-	500	-	500
	6,607,125	13,002,528	1,553,539	21,163,192
	₩ 8,783,945	₩19,427,329	₩ 1,625,545	₩ 29,836,819
Financial liabilities				
Financial liabilities held for trading	₩ 69,465	₩ -	₩ -	₩ 69,465
Derivatives held for trading	-	2,114,609	2,157	2,116,766
Derivatives held for hedging	-	21,460	497	21,957
	₩ 69,465	₩ 2,136,069	₩ 2,654	₩ 2,208,188

[1] The amounts of equity securities carried at cost in “Level 3” which do not have a quoted market price in an active market and cannot be measured reliably at fair value are ₩ 54,553 million and ₩ 24,571 million as of December 31, 2016 and 2015, respectively. These equity securities are carried at cost because it is practically difficult to quantify the intrinsic values of the equity securities issued by unlisted public and non-profit entities. In addition, due to significant fluctuations in estimated cash flows arising from entities being in its initial stages, which further results in varying and unpredictable probabilities a company established to prepare for establishment of online bank, unlisted equity securities issued by project financing cannot be reliably and reasonably assessed. Therefore, these equity securities are carried at cost. The Group has no plan to dispose of the financial instruments in the near future.

Valuation techniques and the inputs used in the fair value measurement of financial assets and liabilities classified as Level 2

Valuation techniques and inputs of financial assets and liabilities measured at fair value in the statements of financial position and classified as Level 2 as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	Fair value 2016	Fair value 2015	Valuation techniques	Inputs
Financial assets				
Financial assets held for trading				
Debt securities	₩ 4,869,378	₩ 4,212,293	DCF model	Discount rate
Equity securities	27,099	28,306	Net asset value method	Price of the underlying asset such as debenture, stock and others
	4,896,477	4,240,599		
Derivatives held for trading	2,736,032	2,092,861	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate, stock price and others
Derivatives held for hedging	49,003	91,341	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate and others
Available-for-sale financial assets				
Debt securities	11,682,924	12,504,635	DCF model	Discount rate
Equity securities	2,649,967	497,393	Net asset value method	Price of the underlying asset such as debenture, stock and others
Others	500	500	DCF model	Discount rate
	14,333,391	13,002,528		
	₩ 22,014,903	₩ 19,427,329		
Financial liabilities				
Derivatives held for trading	₩ 2,769,596	₩ 2,114,609	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate, stock price and others
Derivatives held for hedging	63,694	21,460	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate and others
	₩ 2,833,290	₩ 2,136,069		

Fair value hierarchy of financial assets and liabilities whose fair value is disclosed

The fair value hierarchy of financial assets and liabilities whose fair value is disclosed as of December 31, 2016 and 2015, is as follows:

(In millions of Korean won)	2016			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and due from financial institutions[1]	₩ 2,555,151	₩ 11,391,432	₩ 735,460	₩ 14,682,043
Loans	-	-	236,227,582	236,227,582
Held-to-maturity financial assets	1,431,622	7,146,403	-	8,578,025
Other financial assets[2]	-	-	5,021,200	5,021,200
	3,986,773	₩ 18,537,835	₩ 241,984,242	₩ 264,508,850
Financial liabilities				
Deposits[1]	₩ -	₩112,717,627	₩ 123,580,058	₩ 236,297,685
Debts[1]	-	70,624	15,866,529	15,937,153
Debentures	-	15,334,856	-	15,334,856
Other financial liabilities[3]	-	-	12,097,068	12,097,068
	₩ -	₩128,123,107	₩ 151,543,655	₩ 279,666,762

(In millions of Korean won)	2015			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and due from financial institutions[1]	₩ 2,470,696	₩ 10,405,952	₩ 1,686,052	₩ 14,562,700
Loans	-	-	222,711,536	222,711,536
Held-to-maturity financial assets	1,775,755	10,297,038	-	12,072,793
Other financial assets[2]	-	-	6,887,727	6,887,727
	₩ 4,246,451	₩ 20,702,990	₩ 231,285,315	₩ 256,234,756
Financial liabilities				
Deposits[1]	₩ -	₩100,361,458	₩ 124,651,358	₩ 225,012,816
Debts[1]	-	9,884	14,311,412	14,321,296
Debentures	-	16,436,457	-	16,436,457
Other financial liabilities[3]	-	-	9,612,273	9,612,273
	₩ -	₩116,807,799	₩ 148,575,043	₩ 265,382,842

[1] The amounts included in Level 2 are the carrying amounts which are reasonable approximation of the fair values.

[2] The amounts of other financial assets included in Level 3 are the carrying amounts which are reasonable approximation of the fair values as of December 31, 2016 and 2015.

[3] The ₩12,095,445 million and ₩9,610,088 million of other financial liabilities included in Level 3 are the carrying amounts which are reasonable approximation of fair values as of December 31, 2016 and 2015, respectively.

Valuation techniques and inputs used in the fair value measurement

Valuation techniques and inputs of financial assets and liabilities which are disclosed by the carrying amounts because it is a reasonable approximation of fair value are not subject to be disclosed.

Valuation techniques and inputs of financial assets and liabilities whose fair values are disclosed and classified as Level 2 as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**Fair value**		**Valuation Techniques**	**Inputs**
	2016	**2015**		
Financial assets				
Held-to-maturity financial assets	₩ 7,146,403	₩ 10,297,038	DCF model	Discount rate
Financial liabilities				
Debentures	15,334,856	16,436,457	DCF model	Discount rate

Valuation techniques and inputs of financial assets and liabilities whose fair values are disclosed and classified as Level 3 as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**Fair value**		**Valuation techniques**	**Inputs**	**Unobservable inputs**
	2016	**2015**			
Financial assets					
Cash and due from financial institutions	₩ 735,460	₩ 1,686,052	DCF model	Credit spread, other spread, interest rate	Credit spread, other spread
Loans	236,227,582	222,711,536	DCF model	Credit spread, other spread, prepayment rate, interest rate	Credit spread, other spread, prepayment rate
	₩ 236,963,042	₩ 224,397,588			
Financial liabilities					
Deposits	₩ 123,580,058	₩ 124,651,358	DCF model	Other spread, prepayment rate, interest rate	Other spread, prepayment rate
Debts	15,866,529	14,311,412	DCF model	Other spread, interest rate	Other spread
Other financial liabilities	1,614	2,185	DCF model	Other spread, interest rate	Other spread
	₩ 139,448,201	₩ 138,964,955			

6.2 Level 3 of the Fair Value Hierarchy Disclosure

6.2.1 Valuation Policy and Process of Level 3 Fair Value

The Group uses external, independent and qualified third-party valuation service in addition to internal valuation models to determine the fair value of the Group's assets at the end of every reporting period.

Where a reclassification between the levels of the fair value hierarchy occurs for a financial asset or liability, the Group’s policy is to recognize such transfers as having occurred at the beginning of the reporting period.

6.2.2 Changes in Fair Value (Level 3) Measured using Valuation Technique based on Unobservable Inputs in Market

Changes in Level 3 of the fair value hierarchy for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016			
	Financial assets at fair value through profit or loss	Financial investments	Net derivatives	
		Available-for-sale financial assets		
		Equity securities	Derivatives held for trading	Derivatives held for hedging
Beginning balance	₩ 70,198	₩ 1,553,539	₩ (1,560)	₩ 714
Total gains or losses				
- Profit or loss	9,603	17,086	(14,998)	676
- Other comprehensive-income(expenses)	-	47,080	-	-
Purchases	75,000	455,290	15,534	-
Sales	-	(209,616)	-	-
Settlements	(25,266)	-	2,034	(113)
Transfers into Level 3[1]	-	-	8,815	-
Transfers out of Level 3[1]	-	(17,924)	-	-
Ending balance	₩ 129,535	₩ 1,845,455	₩ 9,825	₩ 1,277

(In millions of Korean won)	2015			
	Financial assets at fair value through profit or loss	Financial investments	Net derivatives	
		Available-for-sale financial assets		
		Equity securities	Derivatives held for trading	Derivatives held for hedging
Beginning balance	₩ -	₩ 1,571,370	₩ 23,997	₩ (2,021)
Total gains or losses				
- Profit or loss	(4,802)	204,429	(1,447)	2,735
- Other comprehensive-income	-	(86,953)	-	-
Purchases	75,000	415,633	277	-
Sales	-	(552,600)	-	-
Settlements	-	-	(24,387)	-
Transfers into Level 3[1]	-	24,850	-	-
Transfers out of Level 3[1]	-	(23,190)	-	-
Ending balance	₩ 70,198	₩ 1,553,539	₩ (1,560)	₩ 714

[1] Changes in levels for the financial instruments occurred due to the change in the availability of observable market data.

In relation to changes in Level 3 of the fair value hierarchy, total gains or losses recognized in profit or loss for the period, and total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period in the statements of comprehensive income for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	
	Net losses on financial assets/liabilities at fair value through profit or loss	Other operating income
Total gains or losses included in profit or loss for the period	₩ (5,395)	₩ 17,762
Total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period	3,076	(5,338)

(In millions of Korean won)	2015	
	Net losses on financial assets/liabilities at fair value through profit or loss	Other operating income(losses)
Total gains or losses included in profit or loss for the period	₩ (6,249)	₩ 207,164
Total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period	(3,035)	(15,372)

6.2.3 Sensitivity Analysis of Changes in Unobservable Inputs

Information about fair value measurements using unobservable inputs as of December 31, 2016, is as follows:

(In millions of Korean won)

	Fair value	Valuation techniques	Inputs	Unobservable inputs	Range of unobservable inputs (%)	Relationship of unobservable inputs to fair value
Financial assets						
Financial assets designated at fair value through profit or loss						
Derivative linked securities	₩ 129,535	MonteCarlo Simulation	Price of the underlying asset, interest rate, dividend yield, volatility of the underlying asset, correlation of the underlying assets	Volatility of the underlying asset	17.65 ~ 29.86	Higher the volatility, higher the fair value fluctuation
				Correlation of the underlying assets	24.77 ~ 73.07	Higher the correlation, higher the fair value fluctuation
Derivatives held for trading						
Stock and index	2,433	Tree model	Price of the underlying asset, interest rate, volatility of the underlying asset, dividend yield	Volatility of the underlying asset	16.64 ~ 27.95	Higher the volatility, higher the fair value fluctuation
Currency and interest	807	DCF model	Interest rate, foreign exchange rate, loss given default	Loss given default	0.80 ~ 0.84	Higher the loss rate, lower the fair value
Others	6,707	MonteCarlo Simulation, Tree model	Stock price, interest rate, volatility of the stock price, volatility of the interest rate	Volatility of the stock price	14.82 ~ 30.97	Higher the volatility, higher the fair value fluctuation
				Volatility of the interest rate	0.57	Higher the volatility, higher the fair value fluctuation
Derivatives held for hedging						
Interest	1,463	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rate, volatility of the underlying asset	Volatility of the underlying asset	5.04	Higher the volatility, higher the fair value fluctuation
Available-for-sale financial assets						
Equity securities	1,845,455	DCF Model, Comparable Company Analysis, Risk Adjusted Discount Rate Method	Growth rate, discount rate, liquidation value , recovery rate of receivables' acquisition cost	Growth rate	0.00 ~ 0.50	Higher the growth rate, higher the fair value
				Discount rate	1.49 ~ 18.49	Lower the discount rate, higher the fair value
				Liquidation value	0.00	Higher the liquidation value, higher the fair value
				Recovery rate of receivables' acquisition cost	155.83	Higher the recovery rate of receivables' acquisition cost, higher the fair value
	₩ 1,986,400					
Financial liabilities						
Derivatives held for trading						
Others	₩ 122	MonteCarlo Simulation	Stock price, interest rate, volatility of the stock price, volatility of the interest rate, discount rate	Volatility of the stock price	14.82	Higher the volatility, higher the fair value fluctuation
				Volatility of the interest rate	0.57	Higher the volatility, higher the fair value fluctuation
				Discount rate	2.09	Higher the discount rate, Lower the fair value
Derivatives held for hedging						

Interest	186	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rate, volatility of the underlying asset	Volatility of the underlying asset	2.74	Higher the volatility, higher the fair value fluctuation
	₩ 308					

Information about fair value measurements using unobservable inputs as of December 31, 2015, is as follows:

	Fair value	Valuation techniques	Inputs	Unobservable Inputs	Range of unobservable inputs (%)	Relationship of unobservable inputs to fair value
Financial assets						
Financial assets designated at fair value through profit or loss						
Derivative linked securities	₩ 70,198	MonteCarlo Simulation	Price of the underlying asset, interest rate, dividend yield, volatility of the underlying asset, correlation of the underlying assets	Volatility of the underlying asset	19.95 ~ 31.19	Higher the volatility, higher the fair value fluctuation
				Correlation of the underlying assets	26.37 ~ 53.50	Higher the correlation, higher the fair value fluctuation
Derivatives held for trading						
Stock and index	321	Tree model	Price of the underlying asset, interest rate, volatility of the underlying asset, dividend yield	Volatility of the underlying asset	17.10	Higher the volatility, higher the fair value fluctuation
Currency and interest	264	DCF model	Interest rate, foreign exchange rate, loss given default	Loss given default	5.56 ~ 100.00	Higher the loss rate, lower the fair value
Others	12	MonteCarlo Simulation	Stock price, interest rate, volatility of the stock price, volatility of the interest rate	Volatility of the stock price	40.02	Higher the volatility, higher the fair value fluctuation
				Volatility of the interest rate	0.45	Higher the volatility, higher the fair value fluctuation
Derivatives held for hedging						
Interest	1,211	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rate, volatility of the underlying asset	Volatility of the underlying asset	5.96	Higher the volatility, higher the fair value fluctuation
Available-for-sale financial assets						
Equity securities	1,553,539	DCF Model, Comparable Company Analysis, Risk Adjusted Discount Rate Method	Growth rate, discount rate, liquidation value , recovery rate of receivables' acquisition cost	Growth rate	0.00 ~ 3.00	Higher the growth rate, higher the fair value
				Discount rate	1.72 ~ 20.65	Lower the discount rate, higher the fair value
				Liquidation value	0.00	Higher the liquidation value, higher the fair value
				Recovery rate of receivables' acquisition cost	155.83	Higher the recovery rate of receivables' acquisition cost, higher the fair value
	₩ 1,625,545					
Financial liabilities						
Derivatives held for trading						
Stock and index	₩ 2,143	DCF model, Closed Form, FDM, Monte Carlo	Price of the underlying asset, interest rate, volatility of the underlying asset, correlation of the underlying	Volatility of the underlying asset	31.00 ~ 33.80	Higher the volatility, higher the fair value fluctuation
				Correlation of rates	11.96	Higher the correlation,

		Simulation	assets(Correlation of rates of return on stocks), dividend yield	of return on stocks		higher the fair value fluctuation
Others	14	MonteCarlo Simulation	Stock price, interest rate, volatility of the stock price, volatility of the interest rate	Volatility of the stock price	40.02	Higher the volatility, higher the fair value fluctuation
				Volatility of the interest rate	0.45	Higher the volatility, higher the fair value fluctuation
Derivatives held for hedging						
Interest	497	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rate, volatility of the underlying asset	Volatility of the underlying asset	3.93	Higher the volatility, higher the fair value fluctuation
	₩ 2,654					

Sensitivity analysis of changes in unobservable inputs

Sensitivity analysis of financial instruments is performed to measure favorable and unfavorable changes in the fair value of financial instruments which are affected by unobservable parameters, using a statistical technique. When the fair value is affected by more than two input parameters, the amounts represent the most favorable or unfavorable. Amongst Level 3 financial instruments subject to sensitivity analysis, there are derivative linked securities, equity-related derivatives, currency-related derivatives, interest rate-related derivatives and other derivatives whose fair value changes are recognized in profit or loss as well as equity securities and private equity funds whose fair value changes are recognized in profit or loss or other comprehensive income and loss.

Sensitivity analysis by type of instrument as a result of varying input parameters are as follows:

	2016	
(In millions of Korean won)	Recognition in profit or loss	
	Favorable changes	Unfavorable changes
Financial assets		
Financial assets designated at fair value through profit or loss		
Derivative linked securities[1]	₩ 1,020	₩ (1,176)
Derivatives held for trading[2]	399	(308)
Derivatives held for hedging[2]	9	(6)
Available-for-sale financial assets[3]	-	-
	₩ 1,428	₩ (1,490)
Financial liabilities		
Derivatives held for trading[2]	₩ 111	₩ (138)
Derivatives held for hedging[2]	3	(3)
	₩ 114	₩ (141)

	2016			
(In millions of Korean won)	**Other comprehensive income or loss**			
	Favorable changes		**Unfavorable changes**	
Financial assets				
Available-for-sale financial assets[3]	₩	118,637	₩	(63,071)

	2015			
(In millions of Korean won)	**Recognition in profit or loss**			
	Favorable changes		**Unfavorable changes**	
Financial assets				
Financial assets designated at fair value through profit or loss				
Derivative linked securities[1]	₩	1,697	₩	(1,507)
Derivatives held for trading[2]		337		(10)
Derivatives held for hedging[2]		81		(71)
Available-for-sale financial assets[3]		-		-
	₩	2,115	₩	(1,588)
Financial liabilities				
Derivatives held for trading[2]	₩	8	₩	(13)
Derivatives held for hedging[2]		17		(16)
	₩	25	₩	(29)

	2015			
(In millions of Korean won)	**Other comprehensive income or loss**			
	Favorable changes		**Unfavorable changes**	
Financial assets				
Available-for-sale financial assets[3]	₩	143,678	₩	(72,762)

[1] For derivative linked securities, the changes in fair value are calculated by shifting principal unobservable input parameters such as the volatility of the underlying asset and the correlation of the underlying assets by ± 10%.

[2] For derivatives, the changes in fair value are calculated by shifting principal unobservable input parameters such as the price of the underlying asset, the volatility of the stock price, and the volatility of interest rate by ± 10% or the loss given default ratio by ± 1%.

[3] For equity securities, the changes in fair value are calculated by shifting principal unobservable input parameters such as discount rate, liquidation value, recovery rate of receivables' acquisition cost (-1~1%) and growth rate (0~0.5%). There were no significant inter-relationships between unobservable inputs that materially affect fair values.

6.2.4 Day One Gain or Loss

If the Group uses a valuation technique that incorporates data not obtained from observable markets for the fair value at initial recognition of financial instruments, there could be a difference between the transaction price and the amount determined using that valuation technique. In these circumstances, the fair value of financial instruments is recognized as the transaction price and the difference is deferred and not recognized in profit or loss, and is amortized by using the straight-line method over the life of the financial instrument. If the fair value of the financial instruments is subsequently determined using observable market inputs, the remaining deferred amount is recognized in profit or loss.

The aggregate difference yet to be recognized in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference are as follows:

(In millions of Korean won)	**2016**	**2015**
Balance at the beginning of the period (A)	₩ 9	₩ 187
New transactions (B)	(3,869)	-
Amounts recognized in profit or loss during the period (C= a+b)	366	(178)
a. Amortization	549	(20)
b. Settlement	(183)	(158)
Balance at the end of the period (A+B+C)	₩ (3,494)	₩ 9

6.3 Carrying Amounts of Financial Instruments by Category

Financial assets and liabilities are measured at fair value or amortized cost. The carrying amounts of financial assets and liabilities by category as of December 31, 2016, are as follows:

(In millions of Korean won)

	Financial assets at fair value through profit or loss						
	Held for trading	**Financial assets designated at fair value through profit or loss**	**Loans and receivables**	**Available-for-sale financial assets**	**Held-to-maturity financial assets**	**Derivatives held for hedging**	**Total**
Financial assets							
Cash and due from financial institutions	₩ -	₩ -	₩ 14,681,846	₩ -	₩ -	₩ -	₩14,681,846
Financial assets at fair value through profit or loss	7,826,697	129,535	-	-	-	-	7,956,232
Derivatives	2,745,979	-	-	-	-	50,466	2,796,445
Loans	-	-	236,551,052	-	-	-	236,551,052
Financial investments	-	-	-	27,304,908	8,427,498	-	35,732,406
Other financial assets	-	-	5,021,200	-	-	-	5,021,200
	₩10,572,676	₩ 129,535	₩ 256,254,098	₩27,304,908	₩8,427,498	₩ 50,466	₩302,739,181

(In millions of Korean won)

	Financial liabilities at fair value through profit or loss			
	Held for trading	**Financial liability at amortized cost**	**Derivatives held for hedging**	**Total**
Financial liabilities				
Financial liabilities at fair value through profit or loss	₩ 73,238	₩ -	₩ -	₩ 73,238
Derivatives	2,769,718	-	63,880	2,833,598
Deposits	-	235,736,034	-	235,736,034
Debts	-	15,934,409	-	15,934,409
Debentures	-	14,959,692	-	14,959,692
Other financial liabilities	-	12,097,059	-	12,097,059
	₩ 2,842,956	₩ 278,727,194	₩ 63,880	₩ 281,634,030

The carrying amounts of financial assets and liabilities by category as of December 31, 2015, are as follows:

(In millions of Korean won)

	Financial assets at fair value through profit or loss						
	Held for trading	Financial assets designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Derivatives held for hedging	Total
Financial assets							
Cash and due from financial institutions	₩ -	₩ -	₩ 14,562,990	₩ -	₩ -	₩ -	₩ 14,562,990
Financial assets at fair value through profit or loss	6,417,419	70,198	-	-	-	-	6,487,617
Derivatives	2,093,458	-	-	-	-	92,552	2,186,010
Loans	-	-	222,738,064	-	-	-	222,738,064
Financial investments	-	-	-	21,163,192	11,748,794	-	32,911,986
Other financial assets	-	-	6,887,727	-	-	-	6,887,727
	₩ 8,510,877	₩ 70,198	₩244,188,781	₩21,163,192	₩11,748,794	₩ 92,552	₩285,774,394

(In millions of Korean won)

	Financial liabilities at fair value through profit or loss	Financial liability at amortized cost	Derivatives held for hedging	Total
	Held for trading			
Financial liabilities				
Financial liabilities at fair value through profit or loss	₩ 69,465	₩ -	₩ -	₩ 69,465
Derivatives	2,116,766	-	21,957	2,138,723
Deposits	-	224,333,507	-	224,333,507
Debts	-	14,291,815	-	14,291,815
Debentures	-	15,949,134	-	15,949,134
Other financial liabilities	-	9,612,261	-	9,612,261
	₩ 2,186,231	₩ 264,186,717	₩ 21,957	₩ 266,394,905

6.4 Transfer of Financial Assets

6.4.1 Transferred Financial Assets that are Derecognized in Their Entirety

The Group transferred loans and other financial assets that are derecognized in their entirety to SPEs, while the maximum exposure to loss(carrying amount) from its continuing involvement in the derecognized financial assets as of December 31, 2016 and 2015, are as follows :

(In millions of Korean won)		2016		
	Type of continuing involvement	**Classification of financial instruments**	**Carrying amount of continuing involvement in statement of financial position**	**Fair value of continuing involvement in statement of financial position**
EAK ABS Ltd.	Subordinated debt	Available-for-sale financial assets	₩ 7	₩ 7
AP 1st Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	1,393	1,393
Discovery 1st Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	6,876	6,876
EAK 2nd Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	12,302	12,302
FK 1411 ABS Ltd.	Subordinated debt	Available-for-sale financial assets	15,212	15,212
AP 3B ABS Ltd.	Subordinated debt	Available-for-sale financial assets	14,374	14,374
AP 4D ABS Ltd.[1]	Senior debt	Loans and receivables	13,626	13,689
	Subordinated debt	Available-for-sale financial assets	14,450	14,450
			₩ 78,240	₩ 78,303

[1] Recognized net gain from transferring loans to the SPEs amounts to ₩ 6,705 million.

[2] In addition to the above, the recovered portion in excess of the consideration paid attributable to adjustments based on the agreement with the National Happiness Fund for non-performing loans amounts to ₩ 4,406 million as of December 31, 2016.

(In millions of Korean won)		2015		
	Type of continuing involvement	Classification of financial instruments	Carrying amount of continuing involvement in statement of financial position	Fair value of continuing involvement in statement of financial position
EAK ABS Ltd.	Subordinated debt	Available-for-sale financial assets	₩ 48	₩ 48
AP 1st Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	10,335	10,335
Discovery 1st Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	10,448	10,448
EAK 2nd Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	22,359	22,359
FK 1411 ABS Ltd.	Subordinated debt	Available-for-sale financial assets	41,810	41,810
AP 3B ABS Ltd.[1]	Senior debt	Loans and receivables	11,496	11,548
	Subordinated debt	Available-for-sale financial assets	27,377	27,377
			₩ 123,873	₩ 123,925

[1] Recognized net gain from transferring loans to the SPEs amounts to ₩ 10,639 million.

[2] In addition to the above, the recovered portion in excess of the consideration paid attributable to adjustments based on the agreement with the National Happiness Fund for non-performing loans amounts to ₩ 4,281 million as of December 31, 2016.

6.4.2 Securities under Repurchase Agreements and Loaned Securities

The Group continues to recognize the financial assets related to repurchase agreements and securities lending transactions on the statements of financial position since those transactions are not qualified for derecognition even though the Group transfers the financial assets. A financial asset is sold under a reverse repurchase agreement to repurchase the same asset at a fixed price, or loaned under a securities lending agreement to be returned as the same asset. Thus, the Group substantially retains all the risks and rewards of ownership of the financial asset. The amounts of transferred assets and related liabilities as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	
	Carrying amount of transferred assets	**Carrying amount of related liabilities**
Securities under repurchase agreements	₩ 1,376,782	₩ 1,261,371
Loaned securities	108,062	-
Government and public bonds	108,062	-
	₩ 1,484,844	₩ 1,261,371

(In millions of Korean won)	**2015**	
	Carrying amount of transferred assets	**Carrying amount of related liabilities**
Securities under repurchase agreements	₩ 608,568	₩ 568,486
Loaned securities	200,389	-
Government and public bonds	200,389	-
	₩ 808,957	₩ 568,486

6.5 Offsetting financial assets and financial liabilities

The Group enters into International Swaps and Derivatives Association ("ISDA") master netting agreements and other similar netting arrangements with the Group's derivative and spot exchange counterparties. Similar netting agreements are also entered into with the Group's reverse repurchase, securities and others. Pursuant to these agreements, in the event of default by one party, contracts are to be terminated and receivables and payables are to be offset. Further, as the law allows for the right to offset, domestic uncollected receivables balances and domestic accrued liabilities balances are shown in its net settlement balance in the statement of financial position. Account receivables and account payables related to listed securities and derivatives or OTC derivatives settled by the central counterparty are included in the other financial instruments. As the Group has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis, the net amounts of the other financial instruments balances are presented in the statement of financial position.

Details of financial assets subject to offsetting, enforceable master netting arrangements or similar agreements as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016					
				Related amounts not offset in the statement of financial position		
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash collateral	Net amount
Derivatives held for trading	₩ 2,736,840	₩ -	₩ 2,736,840	₩ (1,622,583)	₩ (2,711)	₩ 1,111,546
Derivatives held for hedging	50,466	-	50,466	(10,615)	-	39,851
Receivable spot exchange	2,557,327	-	2,557,327	(2,555,485)	-	1,842
Reverse repurchase	2,892,400	-	2,892,400	(2,892,400)	-	-
Domestic exchange settlement debits	19,854,611	(19,323,418)	531,193	-	-	531,193
Other financial instruments	904	(897)	7	-	-	7
	₩28,092,548	₩ (19,324,315)	₩8,768,233	₩ (7,081,083)	₩ (2,711)	₩ 1,684,439

(In millions of Korean won)	2015					
				Related amounts not offset in the statement of financial position		
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash collateral	Net amount
Derivatives held for trading	₩ 2,093,125	₩ -	₩ 2,093,125	₩(1,594,838)	₩ (22,220)	₩ 476,067
Derivatives held for hedging	92,552	-	92,552	(15,650)	-	76,902
Receivable spot exchange	2,841,945	-	2,841,945	(2,840,480)	-	1,465
Reverse repurchase	2,028,200	-	2,028,200	(2,028,200)	-	-
Domestic exchange settlement debits	20,124,480	(17,986,079)	2,138,401	-	-	2,138,401
Other financial instruments	1,282	(1,262)	20	-	-	20
	₩27,181,584	₩(17,987,341)	₩ 9,194,243	₩(6,479,168)	₩ (22,220)	₩ 2,692,855

Details of financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016					
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
Derivatives held for trading	₩ 2,769,306	₩ -	₩ 2,769,306	₩ (1,803,390)	₩ (207,797)	₩ 758,119
Derivatives held for hedging	63,880	-	63,880	(22,758)	(11,922)	29,200
Payable spot exchange	2,555,913	-	2,555,913	(2,555,485)	-	428
Repurchase[1]	1,261,371	-	1,261,371	(1,261,371)	-	-
Domestic exchange settlement credits	20,655,921	(19,323,418)	1,332,503	(1,332,503)	-	-
Other financial instruments	928	(897)	31	(31)	-	-
	₩ 27,307,319	₩ (19,324,315)	₩ 7,983,004	₩ (6,975,538)	₩ (219,719)	₩ 787,747

(In millions of Korean won)	2015					
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
Derivatives held for trading	₩ 2,116,486	₩ -	₩ 2,116,486	₩ (1,618,259)	₩ (4,633)	₩ 493,594
Derivatives held for hedging	21,957	-	21,957	(14,417)	-	7,540
Payable spot exchange	2,842,407	-	2,842,407	(2,840,480)	-	1,927
Repurchase[1]	568,486	-	568,486	(568,486)	-	-
Domestic exchange settlement credits	18,104,678	(17,986,079)	118,599	(118,599)	-	-
Other financial instruments	1,314	(1,262)	52	(52)	-	-
	₩ 23,655,328	₩ (17,987,341)	₩ 5,667,987	₩ (5,160,293)	₩ (4,633)	₩ 503,061

[1] Includes repurchase agreements sold to customers.

7. Due from Financial Institutions

Details of due from Financial Institutions as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

		Financial Institutions	Interest rate(%)	2016	2015
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	0.00 ~ 1.27	₩ 7,259,264	₩ 6,376,961
	Due from banking institutions	KEB Hana Bank and others	0.00 ~ 2.60	3,750	705,670
	Due from others	KB Securities Co., Ltd. and others	0.00 ~ 2.07	2,104,822	2,819,387
				9,367,836	9,902,018
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	Bank of Korea and others	0.00	2,025,373	1,211,342
	Time deposits in foreign currencies	Bank of Communications, Seoul and others	0.14~5.30	699,488	941,986
	Due from others	Bank of Japan and others	0.00	33,998	36,948
				2,758,859	2,190,276
				₩ 12,126,695	₩ 12,092,294

Restricted due from financial institutions as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

		Financial Institutions	2016	2015	Reason for restriction
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	₩ 7,259,264	₩ 6,376,961	Bank of Korea Act
	Due from others	KB Securities Co., Ltd. and others	678	5,119	Derivatives margin account
			7,259,942	6,382,080	
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	Bank of Korea and others	564,099	501,379	Bank of Korea Act and others
	Time deposits in foreign currencies	Sumitomo Mitsui New York and others	24,170	17,580	New York State Banking Law
	Due from others	Samsung Futures Inc. and others	11,490	4,868	Derivatives margin account
			599,759	523,827	
			₩ 7,859,701	₩ 6,905,907	

8. Assets Pledged as Collateral

Details of assets pledged as collateral as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

		2016	
Assets pledged	**Pledgee**	**Carrying amount**	**Reason for the pledge**
Financial assets held for trading	Korea Securities Depository and others	₩ 87,718	Repurchase agreements
	KB Securities Co., Ltd. and others	3,020	Derivatives transaction
		90,738	
Available-for-sale financial assets	Korea Securities Depository and others	1,288,571	Repurchase agreements
	Bank of Korea	490,297	Borrowings from Bank of Korea
	Bank of Korea	493,896	Settlement risk of Bank of Korea
	KEB Hana Bank and others	960,868	Derivatives transactions
	Others	19,957	Others
		3,253,589	
Held-to-maturity financial assets	Korea Securities Depository and others	35,035	Repurchase agreements
	Bank of Korea	1,251,011	Borrowings from Bank of Korea
	Bank of Korea	1,178,800	Settlement risk of Bank of Korea
	KB Securities Co., Ltd. and others	209,022	Derivatives transactions
	Others	261,850	Others
		2,935,718	
Mortgage loans	Others	2,252,315	Covered Bond
Building/ Land	Samsung Life Insurance Co., Ltd. and others	332,148	Others
		₩ 8,864,508	

(In millions of Korean won)

		2015	
Assets pledged	**Pledgee**	**Carrying amount**	**Reason for the pledge**
Financial assets held for trading	Korea Securities Depository and others	₩ 53,680	Repurchase agreements
	KB Securities Co., Ltd. and others	1,021	Derivatives transactions
		54,701	
Available-for-sale financial assets	Korea Securities Depository and others	481,937	Repurchase agreements
	Bank of Korea	594,020	Borrowings from Bank of Korea
	Bank of Korea	61,410	Settlement risk of Bank of Korea
	Deutsche Bank AG. and others	412,475	Derivatives transactions
	Others	5,604	Others
		1,555,446	
Held-to-maturity financial assets	Korea Securities Depository and others	101,942	Repurchase agreements
	Bank of Korea	820,872	Borrowings from Bank of Korea
	Bank of Korea	922,733	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others	200,625	Derivatives transactions
	Others	174,984	Others
		2,221,156	
Mortgage loans	Others	1,745,823	Covered Bond
		₩ 5,577,126	

The fair value of collateral available to sell or repledge regardless of debtor's default as of December 31, 2016 and 2015, is as follows:

(In millions of Korean won)	2016	
	Fair value of collateral	**Fair value of collateral sold or repledged**
Securities	₩ 2,955,306	₩ -

(In millions of Korean won)	2015	
	Fair value of collateral	**Fair value of collateral sold or repledged**
Securities	₩ 2,045,575	₩ -

9. Derivative Financial Instruments and Hedge Accounting

The Group engages in derivative trading activities to hedge the interest rate and foreign currency risk exposures that arise from the Group's own assets and liabilities. In particular, the Group applies fair value hedge accounting using interest rate swaps and others to hedge the risk of changes in fair values due to the changes in interest rates and foreign exchange rates of structured debentures in Korean won, debentures in foreign currencies, structured deposits in Korean won, structured deposits in foreign currencies, and debt securities in foreign currencies. Also, the Group applies cash flow hedge accounting using interest rate swaps to hedge cash flow risk of floating rate notes in Korean won. In addition, the Group applies net investment hedge accounting by designating debentures in foreign currencies as hedging instruments to hedge foreign exchange risks on net investments in foreign operations.

Details of derivative financial instruments for trading as of December 31, 2016 and 2015, are as follows:

	2016		
(In millions of Korean won)	**Notional amount**	**Assets**	**Liabilities**
Interest rate			
Futures[1]	₩ 1,030,888	₩ -	₩ -
Swaps	86,741,333	638,420	552,695
Options	5,202,000	38,216	150,753
	92,974,221	676,636	703,448
Currency			
Forwards	56,486,111	1,302,620	1,152,025
Futures[1]	299,913	-	-
Swaps	28,107,538	752,636	909,277
Options	487,313	4,947	4,557
	85,380,875	2,060,203	2,065,859
Stock and index			
Futures[1]	-	-	-
Options	58,770	2,433	288
	58,770	2,433	288
Others	942,416	6,707	123
	₩ 179,356,282	₩ 2,745,979	₩ 2,769,718

(In millions of Korean won)	2015 Notional amount	Assets	Liabilities
Interest rate			
Futures[1]	₩ 528,941	₩ -	₩ -
Swaps	91,057,388	909,024	889,940
Options	5,874,500	73,724	133,087
	97,460,829	982,748	1,023,027
Currency			
Forwards	33,674,825	511,513	304,877
Futures[1]	576,263	-	-
Swaps	25,303,179	596,668	782,912
Options	373,241	2,196	3,526
	59,927,508	1,110,377	1,091,315
Stock and index			
Futures[1]	26,588	-	-
Options	40,571	321	2,410
	67,159	321	2,410
Others	703,200	12	14
	₩ 158,158,696	₩ 2,093,458	₩ 2,116,766

[1] A gain or loss from daily mark-to-market futures is reflected in the margin accounts.

Fair value hedge

The fair value of derivative financial instruments designated as hedging instruments as of December 31, 2016 and 2015, is as follows:

(In millions of Korean won)	2016 Notional amount	Assets	Liabilities
Interest rate			
Swaps	₩ 3,130,646	₩ 48,424	₩ 63,634
Other	140,000	1,464	186
	₩ 3,270,646	₩ 49,888	₩ 63,820

(In millions of Korean won)	2015 Notional amount	Assets	Liabilities
Interest rate			
Swaps	₩ 3,108,538	₩ 91,341	₩ 21,460
Other	140,000	1,211	497
	₩ 3,248,538	₩ 92,552	₩ 21,957

Gains and losses from fair value hedging instruments and hedged items attributable to the hedged risk for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Gains(losses) on hedging instruments	₩ (81,290)	₩ (39,381)
Gains(losses) on the hedged item attributable to the hedged risk	81,884	40,002
	₩ 594	₩ 621

Cash flow hedge

The fair value of derivative financial instruments designated as hedging instruments as of December 31, 2016 and 2015, is as follows:

(In millions of Korean won)		2016	
	Notional amount	**Assets**	**Liabilities**
Interest rate			
Swaps	₩ 680,000	₩ 578	₩ 60

(In millions of Korean won)		2015	
	Notional amount	**Assets**	**Liabilities**
Interest rate			
Swaps	₩ -	₩ -	₩ -

Gains and losses from cash flow hedging instruments and hedged items attributable to the hedged risk for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Gains(losses) on hedging instruments	₩ 503	₩ -
Effective gain(loss) from cash flow hedging instruments	445	-
Ineffective gain(loss) from cash flow hedging instruments	58	-

Amounts recognized in other comprehensive income and reclassified from equity to profit or loss for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Other comprehensive income or loss	₩ 445	₩ -
Reclassification to profit or loss	-	-
Income tax effect	(108)	-
	₩ 337	₩ -

As of December 31, 2016, the hedged items subject to cash flow hedge are exposed to the risk of changes in cash flows until July 13, 2017.

Hedges of a net investment in a foreign operation

Effective portion of gains(losses) on hedging instruments recognized in other comprehensive income(loss) for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Other comprehensive income(loss)	₩ (8,992)	₩ (33,610)
Income tax effect	2,176	8,134
Other comprehensive income(loss) after tax	₩ (6,816)	₩ (25,476)

There is no ineffective portion of gain (loss) related to hedge on net investments in foreign operations for the year ended December 31, 2016.

Fair value of non-derivative financial instruments designated as hedging instruments is as follows:

(In millions of Korean won)	2016	2015
Debentures in foreign currencies	₩ 199,478	₩ 582,205

10. Loans

Loans as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Loans	₩ 237,576,213	₩ 224,189,374
Deferred loan origination fees and costs	570,450	574,569
Allowances	(1,595,611)	(2,025,879)
Carrying amount	₩ 236,551,052	₩ 222,738,064

Loans to banks as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Loans	₩ 5,542,989	₩ 6,779,962
Allowances	(66)	(39)
Carrying amount	₩ 5,542,923	₩ 6,779,923

Loans to customers other than banks as of December 31, 2016 and 2015, consist of:

(In millions of Korean won)	2016		
	Retail	**Corporate**	**Total**
Loans in Korean won	₩ 123,804,999	₩ 97,471,594	₩ 221,276,593
Loans in foreign currencies	72,329	2,685,932	2,758,261
Domestic import usance bills	-	2,962,676	2,962,676
Off-shore funding loans	-	559,915	559,915
Call loans	-	262,331	262,331
Bills bought in Korean won	-	5,568	5,568
Bills bought in foreign currencies	-	2,834,172	2,834,172
Guarantee payments under payment guarantee	-	11,327	11,327
Reverse repurchase agreements	-	1,239,500	1,239,500
Privately placed bonds	-	693,331	693,331
	123,877,328	108,726,346	232,603,674
Proportion (%)	53.26	46.74	100.00
Allowances	(333,269)	(1,262,276)	(1,595,545)
	₩ 123,544,059	₩ 107,464,070	₩ 231,008,129

(In millions of Korean won)	2015		
	Retail	**Corporate**	**Total**
Loans in Korean won	₩ 115,924,172	₩ 91,272,391	₩ 207,196,563
Loans in foreign currencies	42,413	2,659,902	2,702,315
Domestic import usance bills	-	3,445,301	3,445,301
Off-shore funding loans	-	584,914	584,914
Call loans	-	198,045	198,045
Bills bought in Korean won	-	5,257	5,257
Bills bought in foreign currencies	-	2,812,217	2,812,217
Guarantee payments under payment guarantee	-	26,129	26,129
Reverse repurchase agreements	-	228,001	228,001
Privately placed bonds	-	785,239	785,239
	115,966,585	102,017,396	217,983,981
Proportion (%)	53.20	46.80	100.00
Allowances	(432,414)	(1,593,426)	(2,025,840)
	₩ 115,534,171	₩ 100,423,970	₩ 215,958,141

Changes in deferred loan origination fees and costs for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016 Beginning	Increase	Decrease	Other	Ending
Deferred loan origination costs					
Loans in Korean won	₩ 594,518	₩ 297,671	₩ (309,710)	₩ -	₩ 582,479
Other origination costs	470	230	(405)	-	295
	594,988	297,901	(310,115)	-	582,774
Deferred loan origination fees					
Loans in Korean won	15,972	3,056	(9,060)	-	9,968
Other origination fees	4,447	902	(2,995)	2	2,356
	20,419	3,958	(12,055)	2	12,324
	₩ 574,569	₩ 293,943	₩ (298,060)	₩ (2)	₩ 570,450

(In millions of Korean won)	2015 Beginning	Increase	Decrease	Other	Ending
Deferred loan origination costs					
Loans in Korean won	₩ 572,108	₩ 422,396	₩ (399,986)	₩ -	₩ 594,518
Other origination costs	598	491	(619)	-	470
	572,706	422,887	(400,605)	-	594,988
Deferred loan origination fees					
Loans in Korean won	21,993	3,091	(9,112)	-	15,972
Other origination fees	5,216	1,929	(2,707)	9	4,447
	27,209	5,020	(11,819)	9	20,419
	₩ 545,497	₩ 417,867	₩ (388,786)	₩ (9)	₩ 574,569

11. Allowances for Loan Losses

Changes in the allowances for loan losses for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		
	Retail	Corporate	Total
Beginning	₩ 432,414	₩ 1,593,465	₩ 2,025,879
Written-off	(252,642)	(725,346)	(977,988)
Recoveries from written-off loans	152,384	198,972	351,356
Sale	(3,924)	(37,535)	(41,459)
Other changes	(4,877)	(45,883)	(50,760)
Provision[1]	9,914	278,669	288,583
Ending	₩ 333,269	₩ 1,262,342	₩ 1,595,611

(In millions of Korean won)

	2015		
	Retail	Corporate	Total
Beginning	₩ 476,974	₩ 1,450,623	₩ 1,927,597
Written-off	(295,642)	(683,991)	(979,633)
Recoveries from written-off loans	177,075	156,531	333,606
Sale	(4,051)	(45,619)	(49,670)
Other changes	(1,667)	101	(1,566)
Provision[1]	79,725	715,820	795,545
Ending	₩ 432,414	₩ 1,593,465	₩ 2,025,879

[1] Provision for credit losses(gains) in statements of comprehensive income also includes provision(reversal) for unused commitments and guarantees (Note 22), provision(reversal) for financial guarantee contracts (Note 22), and provision for other financial assets (Note 17).

12. Financial Assets at Fair Value Through Profit or Loss and Financial Investments

Details of financial assets at fair value through profit or loss and financial investments as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)		2016		2015
Financial assets held for trading				
Debt securities				
Government and public bonds	₩	2,149,866	₩	1,301,425
Financial bonds		3,658,448		3,133,610
Corporate bonds		1,445,591		1,438,302
Asset-backed securities		222,076		218,496
Others		217,137		195,636
Equity securities				
Stocks		34,131		31,397
Beneficiary certificates		27,099		29,493
Others		72,349		69,060
		7,826,697		6,417,419
Financial assets designated at fair value through profit or loss				
Derivative linked securities		129,535		70,198
Total financial assets at fair value through profit or loss	₩	7,956,232	₩	6,487,617
Available-for-sale financial assets				
Debt securities				
Government and public bonds	₩	6,590,766	₩	3,202,350
Financial bonds		8,370,202		6,376,869
Corporate bonds		4,116,728		3,533,586
Asset-backed securities		2,729,749		5,180,728
Equity securities				
Stocks		1,776,142		1,440,483
Equity investments		148,400		41,314
Beneficiary certificates		3,572,421		1,387,362
Others		500		500
		27,304,908		21,163,192
Held-to-maturity financial assets				
Debt securities				
Government and public bonds		1,534,324		1,870,481
Financial bonds		1,528,268		2,024,444
Corporate bonds		1,782,391		3,709,968
Asset-backed securities		3,582,515		4,143,901
		8,427,498		11,748,794
Total financial investments	₩	35,732,406	₩	32,911,986

The impairment losses and the reversal of impairment losses in financial investment for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		
	Impairment	**Reversal**	**Net**
Available-for-sale financial assets	₩ (22,225)	₩ -	₩ (22,225)

(In millions of Korean won)

	2015		
	Impairment	**Reversal**	**Net**
Available-for-sale financial assets	₩ (216,027)	₩ -	₩ (216,027)

13. Investments in Associates

Investments in associates as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016					
	Ownership (%)	**Acquisition cost**	**Share of net asset amount**	**Carrying amount**	**Industry**	**Location**
Balhae Infrastructure Fund[1]	12.61	₩ 130,189	₩ 133,200	₩ 133,200	Investment finance	Korea
Korea Credit Bureau Co., Ltd.[1]	9.00	4,500	4,853	4,853	Credit information	Korea
JSC Bank CenterCredit						
Ordinary shares [2, 5]	29.56	954,104	(32,191)	-	Banking	Kazakhstan
Preferred shares [2, 5]	93.15					
KB12-1 Venture Investment Partnership [3]	80.00	27,200	38,797	38,797	Investment finance	Korea
KoFC KBIC Frontier Champ 2010-5(PEF)	30.00	14,391	15,063	14,696	Investment finance	Korea
KB GwS Private Securities Investment Trust	20.93	89,124	104,204	102,948	Investment finance	Korea
Incheon Bridge Co., Ltd. [1]	14.99	24,677	728	728	Operation of highways and related facilities	Korea
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	20.00	18,160	19,831	19,831	Investment finance	Korea
Future Planning KB Start-up Creation Fund[3]	50.00	10,700	15,202	15,202	Investment finance	Korea
Shinla Construction Co., Ltd. [4]	20.17	-	(543)	-	Specialty construction	Korea
Terra Corporation[4]	24.06	-	44	28	Manufacture of fabricated and processed metal products	Korea
MJT&I Corp.[4]	22.89	-	(542)	232	Wholesale of other merchandise	Korea
Jungdong Steel Co., Ltd.[4]	42.65	-	(420)	-	Wholesale of primary metal	Korea
Doosung Metal Co., Ltd[4]	26.49	-	(51)	-	Manufacture of metal door, windows, shutter and relevant products	Korea

Shinhwa Underwear Co., Ltd[4]	26.05	-	(137)	103	Manufacture of underwear and sleepwear	Korea
DPAPS Co.,Ltd.[4]	38.62	-	151	-	Wholesale of paper	Korea
EJADE Co.,Ltd.[4]	25.67	-	(520)	-	Wholesale of underwear	Korea
Jaeyang Industry Co.,Ltd.[4]	20.86	-	(522)	-	Manufacture of pouches, cases, and bags	Korea
Kendae Co.,Ltd.[4]	41.01	-	(351)	-	Screen Printing	Korea
KB High-tech Company Investment Fund[3]	50.00	15,000	15,140	15,140	Investment finance	Korea
Aju Good Technology Venture Fund	38.46	1,998	1,949	1,998	Investment finance	Korea
KB Star office private real estate Investment Trust No.1	21.05	20,000	20,220	20,220	Investment finance	Korea
		₩ 1,310,043	₩ 334,105	₩ 367,976		

(In millions of Korean won)	2015					
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
Balhae Infrastructure Fund[1]	12.61	₩ 125,462	₩ 128,275	₩ 128,275	Investment finance	Korea
Korea Credit Bureau Co., Ltd.[1]	9.00	4,500	4,580	4,580	Credit information	Korea
UAMCO., Ltd.[1]	17.50	85,050	125,822	129,707	Other finance	Korea
JSC Bank CenterCredit Ordinary shares [2] Preferred shares[2]	 29.56 93.15	954,104	(21,990)	-	Banking	Kazakhstan
KB12-1 Venture Investment Partnership[3]	80.00	40,000	50,670	50,670	Investment finance	Korea
KoFC KBIC Frontier Champ 2010-5(PEF)	30.00	16,131	15,537	15,169	Investment finance	Korea
United PF 1st Recovery Private Equity Fund[1]	17.73	172,441	187,596	183,117	Other finance	Korea
Shinla Construction Co., Ltd.[4]	20.17	-	(516)	-	Specialty construction	Korea
KB GwS Private Securities Investment Trust	20.93	89,124	102,530	101,274	Investment finance	Korea
Incheon Bridge Co., Ltd. [1]	14.99	24,677	(1,879)	-	Operation of highways and related facilities	Korea
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	20.00	24,760	23,272	24,760	Investment finance	Korea
Future Planning KB Start-up Creation Fund[3]	50.00	12,000	11,860	12,000	Investment finance	Korea
Terra Corporation[4]	24.06	-	37	21	Manufacture of fabricated and processed metal products	Korea
MJT&I Corp.[4]	22.89	-	(580)	149	Wholesale of other merchandise	Korea
Jungdong Steel Co., Ltd.[4]	42.65	-	86	33	Wholesale of primary metal	Korea
Doosung Metal Co., Ltd[4]	26.49	-	(47)	-	Manufacture of metal door, windows, shutter and relevant products	Korea

Myeongwon Tech Co., Ltd.[4]	25.62	-	(447)	-	Manufacture of other automotive parts	Korea
Shinhwa Underwear Co., Ltd[4]	26.05	-	(184)	56	Manufacture of underwear and sleepwear	Korea
DPAPS Co.,Ltd.[4]	38.62	-	339	-	Wholesale of paper	Korea
EJADE Co.,Ltd.[4]	25.67	-	591	-	Wholesale of underwear	Korea
KB Star office private real estate Investment Trust No.1	21.05	20,000	20,328	20,328	Investment finance	Korea
		₩ 1,568,249	₩ 645,880	₩ 670,139		

[1] As of December 31, 2016 and 2015, the Group is represented in the governing bodies of its associates. Therefore, the Group has significant influence over the decision-making process relating to their financial and business policies.

[2] The Group determined that ordinary shares and convertible preferred shares issued by JSC Bank CenterCredit are the same in economic substance except for the voting rights, and therefore, the equity method of accounting is applied on the basis of single ownership ratio of 41.93%, calculated based on ordinary and convertible preferred shares held by the Group against the total outstanding ordinary and convertible preferred shares issued by JSC Bank CenterCredit. The fair value of ordinary shares of JSC Bank CenterCredit, reflecting the quoted market price as of December 31, 2016 and 2015, amounts to ₩ 29,358 million and ₩ 21,863 million, respectively.

[3] As of December 31, 2016 and 2015, the Group is a partner in a limited partnership and does not have the right to control over these entities.

[4] The investment in associates was reclassified from available-for-sale financial assets due to termination of rehabilitation procedures.

[5] On February 10, 2017, the Group entered into a share purchase agreement with Tsesnabank consortium in Kazakhstan to sell the entire shares (48,023,250 ordinary shares and 36,561,465 convertible preferred shares) of JSC Bank CenterCredit held by the Group.

Summarized financial information on the main associates, the carrying amount of the Group's interest in the main associates and dividends received from the main associates are as follows:

(In millions of Korean won)	2016[1]						
	Total assets	**Total liabilities**	**Paid-in capital**	**Equity**	**Share of net asset amount**	**Unrealized gains and losses and others**	**Carrying amount**
Balhae Infrastructure Fund	₩ 1,059,008	₩ 2,288	₩1,061,216	₩1,056,720	₩ 133,200	₩ -	₩ 133,200
Korea Credit Bureau Co., Ltd.	71,245	17,322	10,000	53,923	4,853	-	4,853
JSC Bank CenterCredit	4,510,673	4,578,854	546,794	(68,181)	(32,191)	32,191	-
KB12-1 Venture Investment Partnership	49,545	1,048	34,000	48,497	38,797	-	38,797
KoFC KBIC Frontier Champ 2010-5(PEF)	50,213	2	47,970	50,211	15,063	(367)	14,696
KB GwS Private Securities Investment Trust	498,606	741	425,814	497,865	104,204	(1,256)	102,948
Incheon Bridge Co., Ltd.	660,858	656,000	164,621	4,858	728	-	728
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	100,252	1,094	90,800	99,158	19,831	-	19,831
Future Planning KB Start-up Creation Fund	31,944	1,541	21,400	30,403	15,202	-	15,202
KB High-tech Company Investment Fund	30,535	256	30,000	30,279	15,140	-	15,140
Aju Good Technology Venture Fund	5,249	181	5,200	5,068	1,949	49	1,998
KB Star office private real estate Investment Trust No.1	216,988	120,943	95,000	96,045	20,220	-	20,220

(In millions of Korean won)	2016[1]				
	Operating revenues	**Profit (Loss)**	**Other comprehensive income(loss)**	**Comprehensive income(loss)**	**Dividends**
Balhae Infrastructure Fund	₩ 55,541	₩ 46,428	₩ -	₩ 46,428	₩ 5,653
Korea Credit Bureau Co., Ltd.	59,868	3,517	-	3,517	135
JSC Bank CenterCredit	157,996	(13,912)	(15,374)	(29,286)	-
KB12-1 Venture Investment Partnership	9,410	3,539	(2,379)	1,160	-
KoFC KBIC Frontier Champ 2010-5(PEF)	3,045	2,001	2,390	4,391	-
KB GwS Private Securities Investment Trust	36,502	35,513	-	35,513	5,756
Incheon Bridge Co., Ltd.	98,341	17,449	-	17,449	-
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	22,411	15,002	872	15,874	-
Future Planning KB Start-up Creation Fund	10,378	9,165	222	9,387	-
KB High-tech Company Investment Fund	1,437	176	103	279	-
Aju Good Technology Venture Fund	50	(128)	-	(128)	-
KB Star office private real estate Investment Trust No.1	16,314	7,460	-	7,460	1,679

[1] The amounts included in the financial information of the associates are adjusted to reflect adjustments made by the Group, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

(In millions of Korean won)	2015[1]						
	Total assets	Total liabilities	Paid-in capital	Equity	Share of net asset amount	Unrealized gains and losses and others	Carrying amount
Balhae Infrastructure Fund	₩ 1,019,844	₩ 2,198	₩1,021,953	₩1,017,646	₩ 128,275	₩ -	₩ 128,275
Korea Credit Bureau Co., Ltd.	63,960	13,076	10,000	50,884	4,580	-	4,580
UAMCO., Ltd.	4,068,353	3,331,647	2,430	736,706	125,822	3,885	129,707
JSC Bank CenterCredit	4,672,327	4,710,972	546,794	(38,645)	(21,990)	21,990	-
KB12-1 Venture Investment Partnership	64,190	852	50,000	63,338	50,670	-	50,670
KoFC KBIC Frontier Champ 2010-5(PEF)	51,934	145	53,770	51,789	15,537	(368)	15,169
United PF 1st Recovery Private Equity Fund	1,088,325	30,390	973,258	1,057,935	187,596	(4,479)	183,117
KB GwS Private Securities Investment Trust	490,606	741	425,814	489,865	102,530	(1,256)	101,274
Incheon Bridge Co., Ltd.	696,390	708,926	164,621	(12,536)	(1,879)	1,879	-
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	117,473	1,112	123,800	116,361	23,272	1,488	24,760
Future Planning KB Start-up Creation Fund	23,725	6	24,000	23,719	11,860	140	12,000
KB Star office private real estate Investment Trust No.1	218,308	121,749	95,000	96,559	20,328	-	20,328

(In millions of Korean won)	2015[1]				
	Operating revenues	Profit (Loss)	Other comprehensive income(loss)	Comprehensive income(loss)	Dividends
Balhae Infrastructure Fund	₩ 50,214	₩ 41,594	₩ -	₩ 41,594	₩ 4,926
Korea Credit Bureau Co., Ltd.	53,184	2,005	1,098	3,103	-
UAMCO., Ltd.	452,759	68,078	(276)	67,802	-
JSC Bank CenterCredit	320,307	(159,985)	452	(159,533)	1
KB12-1 Venture Investment Partnership	14,641	10,362	2,577	12,939	-
KoFC KBIC Frontier Champ 2010-5(PEF)	10,977	9,292	(331)	8,961	-
United PF 1st Recovery Private Equity Fund	99,712	18,911	-	18,911	-
KB GwS Private Securities Investment Trust	40,454	39,454	-	39,454	5,545
Incheon Bridge Co., Ltd.	87,230	(803)	-	(803)	-
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	8,915	(3,117)	7,978	4,861	-
Future Planning KB Start-up Creation Fund	1,379	69	-	69	-
KB Star office private real estate Investment Trust No.1	15,990	7,727	-	7,727	1,620

[1] The amounts included in the financial information of the associates are adjusted to reflect adjustments made by the Group, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

Changes in investments in associates for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016						
	Beginning	**Acquisition and others**	**Disposal and others**	**Dividends**	**Gains (losses) from using equity method**	**Other comprehen-sive income (loss)**	**Ending**
Balhae Infrastructure Fund	₩ 128,275	₩ 4,727	₩ -	₩ (5,654)	₩ 5,852	₩ -	₩ 133,200
Korea Credit Bureau Co., Ltd.	4,580	-	-	(135)	408	-	4,853
UAMCO., Ltd.	129,707	-	(101,740)	(26,961)	(1,006)	-	-
JSC Bank CenterCredit	-	-	-	(1)	1	-	-
KB12-1 Venture Investment Partnership	50,670	-	(12,800)	-	2,831	(1,904)	38,797
KoFC KBIC Frontier Champ 2010-5(PEF)	15,169	-	(1,740)	-	550	717	14,696
United PF 1st Recovery Private Equity Fund	183,117	-	(190,863)	-	7,746	-	-
KB GwS Private Securities Investment Trust	101,274	-	-	(5,756)	7,430	-	102,948
Incheon Bridge Co., Ltd.	-	-	-	-	728	-	728
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	24,760	3,000	(9,600)	-	952	719	19,831
Future Planning KB Start-up Creation Fund	12,000	4,000	(5,300)	-	4,391	111	15,202
Terra Corporation	21	-	-	-	7	-	28
MJT&I Corp.	149	-	-	-	83	-	232
Jungdong Steel Co., Ltd.	33	-	-	-	(33)	-	-
Shinhwa Underwear Co., Ltd.	56	-	-	-	47	-	103
KB High-tech Company Investment Fund	-	15,000	-	-	88	52	15,140
Aju Good Technology Venture Fund	-	2,000	(2)	-	-	-	1,998
KB Star office private real estate Investment Trust No.1	20,328	-	-	(1,679)	1,571	-	20,220
	₩ 670,139	₩ 28,727	₩ (322,045)	₩ (40,186)	₩ 31,646	₩ (305)	₩ 367,976

(In millions of Korean won)	2015						
	Beginning	Acquisition and others	Disposal and others	Dividends	Gains (losses) from using equity method	Other comprehen-sive income (loss)	Ending
Balhae Infrastructure Fund	₩ 125,119	₩ 2,839	₩ -	₩ (4,926)	₩ 5,243	₩ -	₩ 128,275
Korea Credit Bureau Co., Ltd.	4,222	-	-	-	259	99	4,580
UAMCO., Ltd.	121,182	-	-	-	8,525	-	129,707
JSC Bank CenterCredit	29,279	-	-	(1)	(29,278)	-	-
KB12-1 Venture Investment Partnership	29,119	11,200	-	-	8,289	2,062	50,670
KoFC KBIC Frontier Champ 2010-5(PEF)	16,675	-	(2,850)	-	336	1,008	15,169
United PF 1st Recovery Private Equity Fund	198,089	-	(19,028)	-	4,056	-	183,117
KB GwS Private Securities Investment Trust	98,562	-	-	(5,545)	8,257	-	101,274
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	20,663	5,960	(2,200)	-	192	145	24,760
Future Planning KB Start-up Creation Fund	4,000	8,000	-	-	-	-	12,000
CH Engineering Co., Ltd.	20	-	-	-	(20)	-	-
Terra Corporation	-	-	-	-	21	-	21
MJT&I Corp.	-	-	-	-	149	-	149
Jungdong Steel Co., Ltd.	-	-	-	-	33	-	33
Shinhwa Underwear Co., Ltd.	-	-	-	-	56	-	56
KB Star office private real estate Investment Trust No.1	20,402	-	-	(1,620)	1,546	-	20,328
	₩ 667,332	₩ 27,999	₩ (24,078)	₩ (12,092)	₩ 7,664	₩ 3,314	₩ 670,139

Accumulated unrecognized share of losses in investments in associates due to discontinuation of applying the equity method of accounting for the years ended December 31, 2016 and 2015, are as follows:

	2016		2015	
	Unrecognized loss	Accumulated unrecognized loss	Unrecognized loss	Accumulated unrecognized loss
Incheon Bridge Co., Ltd.	₩ (1,879)	₩ -	₩ 163	₩ 1,879
Shinla Construction Co., Ltd.	27	175	14	148
Doosung Metal Co., Ltd	5	54	49	49
Myeongwon Tech Co., Ltd	(43)	-	43	43
Jungdong Steel Co., Ltd	474	474	-	-
DPAPS Co.,Ltd.	188	188	-	-
EJADE Co.,Ltd.	1,112	1,112	-	-
JSC Bank CenterCredit	5,308	108,761	103,453	103,453

14. Property and Equipment, and Investment Properties

Details of property and equipment as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Land	₩ 2,060,974	₩ -	₩ (1,018)	₩ 2,059,956
Buildings	1,235,214	(403,397)	(5,859)	825,958
Leasehold improvements	653,804	(590,148)	-	63,656
Equipment and vehicles	1,195,582	(1,039,735)	-	155,847
Construction in-progress	4,013	-	-	4,013
Finance lease assets	22,391	(14,430)	-	7,961
	₩ 5,171,978	₩(2,047,710)	₩ (6,877)	₩ 3,117,391

(In millions of Korean won)	2015			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Land	₩ 1,883,316	₩ -	₩ (1,018)	₩ 1,882,298
Buildings	1,198,045	(376,214)	(5,859)	815,972
Leasehold improvements	599,703	(551,338)	-	48,365
Equipment and vehicles	1,395,082	(1,245,371)	-	149,711
Construction in-progress	443	-	-	443
Finance lease assets	21,785	(9,202)	-	12,583
	₩ 5,098,374	₩ (2,182,125)	₩ (6,877)	₩ 2,909,372

Changes in property and equipment for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016						
	Beginning	Acquisition	Transfers[1]	Disposal	Depreciation	Others	Ending
Land	₩ 1,882,298	₩ 98,311	₩ 79,454	₩ (127)	₩ -	₩ 20	₩2,059,956
Buildings	815,972	1,187	38,295	(545)	(29,015)	64	825,958
Leasehold improvements	48,365	1,239	49,375	(691)	(45,259)	10,627	63,656
Equipment and vehicles	149,711	103,793	-	(181)	(97,443)	(33)	155,847
Construction in-progress	443	144,588	(141,020)	-	-	2	4,013
Finance lease assets	12,583	606	-	-	(5,228)	-	7,961
	₩ 2,909,372	₩ 349,724	₩ 26,104	₩ (1,544)	₩ (176,945)	₩ 10,680	₩3,117,391

(In millions of Korean won)

	2015						
	Beginning	**Acquisition**	**Transfers[1]**	**Disposal**	**Depreciation**	**Others**	**Ending**
Land	₩ 1,884,029	₩ 50	₩ (1,496)	₩ (297)	₩ -	₩ 12	₩ 1,882,298
Buildings	805,644	568	39,221	(898)	(28,057)	(506)	815,972
Leasehold improvements	47,470	1,091	30,689	(383)	(34,290)	3,788	48,365
Equipment and vehicles	129,928	106,525	-	(679)	(86,133)	70	149,711
Construction in-progress	606	67,362	(67,526)	-	-	1	443
Finance lease assets	20,517	554	-	-	(8,474)	(14)	12,583
	₩ 2,888,194	₩ 176,150	₩ 888	₩ (2,257)	₩ (156,954)	₩ 3,351	₩ 2,909,372

[1] Including transfers from investment properties and assets held for sale.

Changes in accumulated impairment losses of property and equipment for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

2016				
Beginning	**Impairment**	**Reversal**	**Others**	**Ending**
₩ (6,877)	₩ -	₩ -	₩ -	₩ (6,877)

(In millions of Korean won)

2015				
Beginning	**Impairment**	**Reversal**	**Others**	**Ending**
₩ (2,117)	₩ (557)	₩ -	₩ (4,203)	₩ (6,877)

Details of investment properties as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016		
	Acquisition cost	**Accumulated depreciation**	**Carrying amount**
Land	₩ 230,254	₩ -	₩ 230,254
Buildings	160,793	(18,167)	142,626
	₩ 391,047	₩ (18,167)	₩ 372,880

(In millions of Korean won)	2015		
	Acquisition cost	**Accumulated depreciation**	**Carrying amount**
Land	₩ 255,806	₩ -	₩ 255,806
Buildings	173,131	(15,758)	157,373
	₩ 428,937	₩ (15,758)	₩ 413,179

The valuation technique and input variables that are used to measure the fair value of investment property as of December 31, 2016, are as follows:

(In millions of Korean won)	2016		
	Fair Value	**Valuation technique**	**Inputs**
Land and Buildings	₩ 86,428	Cost approach value	- Price per square meter - Replacement cost
	312,580	Income approach	- Discount rate - Capitalization rate - Vacancy rate

As of December 31, 2016 and 2015, fair values of the investment properties amount to ₩ 399,008 million and ₩ 447,627 million, respectively. The investment properties were measured by qualified independent appraisers with experience in valuing similar properties in the same area. In addition, per the fair value hierarchy on Note 6.1, the fair value hierarchy of all investment properties has been categorized and classified as Level 3.

Rental income from the above investment properties for the years ended December 31, 2016 and 2015, amounts to ₩ 21,492 million and ₩ 22,252 million, respectively.

Changes in investment properties for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016				
	Beginning	**Acquisitions**	**Transfers**	**Depreciation**	**Ending**
Land	₩ 255,806	₩ -	₩ (25,552)	₩ -	₩ 230,254
Buildings	157,373	1,254	(12,515)	(3,486)	142,626
	₩ 413,179	₩ 1,254	₩ (38,067)	₩ (3,486)	₩ 372,880

(In millions of Korean won)	2015				
	Beginning	**Acquisitions**	**Transfers**	**Depreciation**	**Ending**
Land	₩ 253,533	₩ 21	₩ 2,252	₩ -	₩ 255,806
Buildings	155,733	4,269	1,040	(3,669)	157,373
	₩ 409,266	₩ 4,290	₩ 3,292	₩ (3,669)	₩ 413,179

15. Intangible Assets

Details of intangible assets as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment losses**	**Carrying amount**
Goodwill	₩ 66,490	₩ -	₩ -	₩ 66,490
Other intangible assets	828,618	(680,215)	(4,179)	144,224
	₩ 895,108	₩ (680,215)	₩ (4,179)	₩ 210,714

(In millions of Korean won)	2015			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment losses**	**Carrying amount**
Goodwill	₩ 66,490	₩ -	₩ -	₩ 66,490
Other intangible assets	763,929	(641,350)	(7,470)	115,109
	₩ 830,419	₩ (641,350)	₩ (7,470)	₩ 181,599

Details of goodwill as of December 31, 2016 and 2015, are as follows:

	2016		2015	
(In millions of Korean won)	**Acquisition cost**	**Carrying amount**	**Acquisition cost**	**Carrying amount**
Housing & Commercial Bank	₩ 65,288	₩ 65,288	₩ 65,288	₩ 65,288
KB Cambodia Bank	1,202	1,202	1,202	1,202
	₩ 66,490	₩ 66,490	₩ 66,490	₩ 66,490

There is no change in goodwill for the years ended December 31, 2016 and 2015.

Details of allocating goodwill to cash-generating units and related information for impairment testing as of December 31, 2015, are as follows:

(In millions of Korean won)

	Housing & Commercial Bank			
	Retail Banking	Corporate Banking	KB Cambodia Bank	Total
Carrying amounts	₩ 49,315	₩ 15,973	₩ 1,202	₩ 66,490
Recoverable amount exceeded carrying amount	11,517,237	2,726,509	63	14,243,809
Discount rate (%)	12.70	12.91	28.64	
Permanent growth rate (%)	1.00	1.00	1.00	

Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the combination for impairment testing, and cash-generating units consist of an operating segment or units which are not larger than an operating segment. The Group recognized the amount of ₩ 65,288 million related to goodwill acquired in the merger of Housing & Commercial Bank. Of this amount, the amounts of ₩ 49,315 million and ₩ 15,973 million were allocated to the Retail Banking and Corporate Banking, respectively. Cash-generating units, to which goodwill has been allocated, is tested for impairment annually and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit.

The recoverable amount of a cash-generating unit is measured at the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. If it is difficult to measure the amount obtainable from the sale of the cash-generating unit, the Group measures the fair value less costs to sell by reflecting the characteristics of the measured cash-generating unit. If it is not possible to obtain the reliable information to measure the fair value less costs to sell, the Group uses the asset's value in use as its recoverable amount. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The projections of the future cash flows are based on the most recent financial budget approved by management and generally cover a period of five years. The future cash flows after projection period are estimated on the assumption that the future cash flows will increase by 1.0% annually for Retail Banking, Corporate Banking and KB Cambodia Bank. The key assumptions used for the estimation of the future cash flows are the market size and the Group's market share. The discount rate is a pre-tax rate that reflects assumptions regarding risk-free interest rate, market risk premium and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Details of intangible assets, excluding goodwill, as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Industrial property rights	₩ 1,417	₩ (1,281)	₩ -	₩ 136
Software	675,830	(592,069)	-	83,761
Other intangible assets	126,058	(77,881)	(4,179)	43,998
Finance leases assets	25,313	(8,984)	-	16,329
	₩ 828,618	₩ (680,215)	₩ (4,179)	₩ 144,224

(In millions of Korean won)	2015			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Industrial property rights	₩ 1,357	₩ (1,142)	₩ -	₩ 215
Software	610,503	(565,519)	-	44,984
Other intangible assets	127,464	(70,084)	(7,470)	49,910
Finance leases assets	24,605	(4,605)	-	20,000
	₩ 763,929	₩ (641,350)	₩ (7,470)	₩ 115,109

Changes in intangible assets, excluding goodwill, for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016					
	Beginning	Acquisition	Disposal	Amortization	Others	Ending
Industrial property rights	₩ 215	₩ 47	₩ -	₩ (126)	₩ -	₩ 136
Software	44,984	65,386	-	(26,611)	2	83,761
Other intangible assets	49,910	8,537	(3,810)	(8,387)	(2,252)	43,998
Finance leases assets	20,000	708	-	(4,379)	-	16,329
	₩ 115,109	₩ 74,678	₩ (3,810)	₩ (39,503)	₩ (2,250)	₩ 144,224

(In millions of Korean won)

	2016					
	Beginning	Acquisition	Disposal	Amortization	Others	Ending
Industrial property rights	₩ 289	₩ 38	₩ -	₩ (120)	₩ 8	₩ 215
Software	54,123	21,026	-	(30,201)	36	44,984
Other intangible assets	62,372	5,139	(3,384)	(9,270)	(4,947)	49,910
Finance leases assets	23,621	647	-	(4,253)	(15)	20,000
	₩ 140,405	₩ 26,850	₩ (3,384)	₩ (43,844)	₩ (4,918)	₩ 115,109

Changes in accumulated impairment losses on intangible assets for the years ended December 31, 2016 and 2015, are as follows:

	2016				
(In millions of Korean won)	**Beginning**	**Impairment**	**Reversal**	**Others**	**Ending**
Accumulated impairment losses on other intangible assets	₩ (7,470)	₩ (2,250)	₩ 15	₩ 5,526	₩ (4,179)

	2015				
(In millions of Korean won)	**Beginning**	**Impairment**	**Reversal**	**Others**	**Ending**
Accumulated impairment losses on other intangible assets	₩ (5,529)	₩ (5,531)	₩ 6	₩ 3,584	₩ (7,470)

Changes in emission rights for the year ended December 31, 2016, are as follows:

(KAU, in millions of Korean won)

	Applicable under 2015		Applicable under 2016		Applicable under 2017		Total	
	Quantity	**Carrying amount**	**Quantity**	**Carrying amount**	**Quantity**	**Carrying amount**	**Quantity**	**Carrying amount**
Beginning	116,799	₩ -	112,137	₩ -	109,140	₩ -	338,076	₩ -
Cancel	(4,056)	-	(4,336)	-	(4,220)	-	(12,612)	-
Borrowing	8,518	-	(8,518)	-	-	-	-	-
Surrendered to government	(121,261)	-	-	-	-	-	(121,261)	-
Ending	-	₩ -	99,283	₩ -	104,920	₩ -	204,203	₩ -

16. Deferred Income Tax Assets and Liabilities

Details of deferred income tax assets and liabilities as of December 31, 2016 and 2015, are as follows:

	2016		
(In millions of Korean won)	**Assets**	**Liabilities**	**Net amount**
Other provisions	₩ 70,507	₩ -	₩ 70,507
Impairment losses on property and equipment	5,037	-	5,037
Interest on equity index-linked deposits	41	-	41
Share-based payments	10,408	-	10,408
Provisions for guarantees	30,569	-	30,569
Gains on valuation of derivatives	-	(10,235)	(10,235)
Present value discount	-	(22)	(22)
Losses on fair value hedged item	-	(14,335)	(14,335)
Accrued interest	-	(43,842)	(43,842)
Deferred loan origination fees and costs	-	(120,310)	(120,310)
Gains on revaluation	-	(270,890)	(270,890)
Investments in subsidiaries and associates	6,672	(89,282)	(82,610)
Gains on valuation of security investment	68,455	-	68,455
Defined benefit liabilities	300,059	-	300,059
Accrued expenses	232,207	-	232,207
Retirement insurance expense	-	(270,808)	(270,808)
Adjustments to the prepaid contributions	-	(15,142)	(15,142)
Others	179,048	(20,464)	158,584
	903,003	(855,330)	47,673
Offsetting of deferred income tax assets and liabilities	(855,311)	855,311	-
Total	₩ 47,692	₩ (19)	₩ 47,673

(In millions of Korean won)	2015 Assets	2015 Liabilities	2015 Net amount
Other provisions	₩ 68,633	₩ -	₩ 68,633
Impairment losses on property and equipment	5,019	-	5,019
Interest on equity index-linked deposits	69	-	69
Share-based payments	8,168	-	8,168
Provisions for guarantees	38,225	-	38,225
Gains on valuation of derivatives	-	(30,391)	(30,391)
Present value discount	-	(25)	(25)
Losses on fair value hedged	2,876	-	2,876
Accrued interest	-	(43,414)	(43,414)
Deferred loan origination fees and costs	-	(120,375)	(120,375)
Gains on revaluation	-	(272,696)	(272,696)
Investments in subsidiaries and associates	5,614	(82,542)	(76,928)
Gains on valuation of security investment	68,962	-	68,962
Defined benefit liabilities	270,752	-	270,752
Accrued expenses	46,035	-	46,035
Retirement insurance expense	-	(235,539)	(235,539)
Adjustments to the prepaid contributions	-	(21,938)	(21,938)
Others	154,379	(18,764)	135,615
	668,732	(825,684)	(156,952)
Offsetting of deferred income tax assets and liabilities	(660,411)	660,411	-
Total	₩ 8,321	₩ (165,273)	₩ (156,952)

Unrecognized deferred income tax liabilities

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩ 17,205 million associated with investments in subsidiaries and associates as of December 31, 2016, due to the following reasons:

- The Group is able to control the timing of the reversal of the temporary difference.
- It is probable that the temporary difference will not be reversed in the foreseeable future.

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩ 65,288 million arising from the initial recognition of goodwill from the merger of Housing and Commercial Bank as of December 31, 2016.

Unrecognized deferred income tax assets

No deferred income tax assets have been recognized for the deductible temporary difference of ₩ 788,196 million associated with investments in subsidiaries and associates as of December 31, 2016, because it is not probable that the temporary differences will be reversed in the foreseeable future.

No deferred income tax assets have been recognized for deductible temporary differences of ₩ 80,204 million and ₩ 21,797 million associated with loss on SPE repurchase and others, respectively, as of December 31, 2016, due to the uncertainty that these will be realized in the future.

Changes in cumulative temporary differences for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016			
	Beginning	**Decrease**	**Increase**	**Ending**
Deductible temporary differences				
Losses from fair value hedge	₩ 11,882	₩ 11,882	₩ -	₩ -
Other provisions	283,672	283,672	291,350	291,350
Impairment losses on property and equipment	20,738	20,738	20,812	20,812
Interest on equity index-linked deposits	287	287	168	168
Share-based payments	33,754	33,754	43,008	43,008
Provisions for guarantees	157,954	157,954	126,319	126,319
Loss on SPE repurchase	80,204	-	-	80,204
Investment in subsidiaries and associates	811,394	728	4,019	814,685
Gains on valuation of security investment	284,965	284,965	282,872	282,872
Defined benefit liabilities	1,118,809	48,247	169,352	1,239,914
Accrued expenses	190,228	190,228	959,532	959,532
Others	659,343	82,615	182,878	759,606
	3,653,230	₩1,115,070	₩2,080,310	4,618,470
Unrecognized deferred income tax assets				
Other provisions	67			-
Loss on SPE repurchase	80,204			80,204
Investment in subsidiaries and associates	788,196			788,196
Others	21,393			21,797
	2,763,370			3,728,273
Tax rate (%)	24.20			24.20
Total deferred income tax assets from deductible temporary differences	₩ 668,732			₩ 903,002

(In millions of Korean won)	2016			
	Beginning	**Decrease**	**Increase**	**Ending**
Taxable temporary differences				
Losses from fair value hedge	₩ -	₩ -	₩ (59,235)	₩ (59,235)
Accrued interest	(179,394)	(128,026)	(129,797)	(181,165)
Deferred loan origination fees and costs	(497,418)	(497,418)	(497,149)	(497,149)
Gains on valuation of derivatives	(125,582)	(125,582)	(42,294)	(42,294)
Present value discount	(104)	(104)	(92)	(92)
Goodwill from merger	(65,288)	-	-	(65,288)
Gains on revaluation	(1,126,842)	(7,463)	-	(1,119,379)
Investment in subsidiaries and associates	(407,434)	(67,101)	(46,935)	(387,268)
Retirement insurance expense	(973,303)	(48,247)	(193,985)	(1,119,041)
Adjustments to the prepaid contributions	(90,653)	(90,653)	(62,569)	(62,569)
Others	(77,537)	(21,271)	(28,311)	(84,577)
	(3,543,555)	₩ (985,865)	₩ (1,060,367)	(3,618,057)
Unrecognized deferred income tax liabilities				
Goodwill from merger	(65,288)			(65,288)
Investments in subsidiaries and associates	(65,873)			(17,205)
	(3,412,394)			(3,535,564)
Tax rate (%)	24.20			24.20
Total deferred income tax liabilities from taxable temporary differences	₩ (825,684)			₩ (855,330)

(In millions of Korean won)	2015			
	Beginning	**Decrease**	**Increase**	**Ending**
Deductible temporary differences				
Losses from fair value hedge	₩ 53,033	₩ 53,033	₩ 11,882	₩ 11,882
Other provisions	268,931	268,931	283,672	283,672
Impairment losses on property and equipment	22,363	22,363	20,738	20,738
Interest on equity index-linked deposits	758	758	287	287
Share-based payments	32,256	32,256	33,754	33,754
Provisions for guarantees	207,087	207,087	157,954	157,954
Loss on SPE repurchase	80,204	-	-	80,204
Investment in subsidiaries and associates	793,034	10,019	29,279	811,394
Gains on valuation of security investment	257,478	257,478	284,965	284,965
Defined benefit liabilities	1,006,115	91,406	204,100	1,118,809
Accrued expenses	144,968	144,968	190,228	190,228
Others	932,910	387,128	113,561	659,343
	3,799,137	₩ 1,476,327	₩ 1,330,420	3,653,230
Unrecognized deferred income tax assets				
Other provisions	199			67
Loss on SPE repurchase	80,204			80,204
Investment in subsidiaries and associates	774,722			788,196
Others	18,185			21,393
	2,925,827			2,763,370
Tax rate (%)	24.20			24.20
Total deferred income tax assets from deductible temporary differences	₩ 709,919			₩ 668,732

(In millions of Korean won)	2015			
	Beginning	**Decrease**	**Increase**	**Ending**
Taxable temporary differences				
Accrued interest	₩ (198,424)	₩ (158,989)	₩ (139,959)	₩ (179,394)
Deferred loan origination fees and costs	(455,207)	(455,207)	(497,418)	(497,418)
Gains on valuation of derivatives	(211,434)	(211,434)	(125,582)	(125,582)
Present value discount	(140)	(140)	(104)	(104)
Goodwill from merger	(65,288)	-	-	(65,288)
Gains on revaluation	(1,126,842)	-	-	(1,126,842)
Investment in subsidiaries and associates	(327,356)	(20)	(80,098)	(407,434)
Retirement insurance expense	(887,946)	(91,406)	(176,763)	(973,303)
Adjustments to the prepaid contributions	(114,108)	(114,108)	(90,653)	(90,653)
Others	(77,792)	(15,509)	(15,254)	(77,537)
	(3,464,537)	₩ (1,046,813)	₩ (1,125,831)	(3,543,555)
Unrecognized deferred income tax liabilities				
Goodwill from merger	(65,288)			(65,288)
Investments in subsidiaries and associates	(39,024)			(65,873)
	(3,360,225)			(3,412,394)
Tax rate (%)	24.20			24.20
Total deferred income tax liabilities from taxable temporary differences	₩ (814,963)			₩ (825,684)

17. Other Assets

Details of other assets as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Other financial assets		
Other receivables	₩ 2,660,373	₩ 3,165,861
Accrued income	760,933	692,744
Guarantee deposits	1,120,685	1,160,950
Domestic exchange settlement debits	531,193	2,138,401
Others	9,584	17,743
Allowances for loan losses	(60,062)	(286,915)
Present value discount	(1,506)	(1,057)
	5,021,200	6,887,727
Other non-financial assets		
Other receivables	39	42,356
Prepaid expenses	112,993	141,758
Guarantee deposits	3,284	3,656
Others	79,061	104,141
Allowances on other assets	(23,305)	(23,128)
	172,072	268,783
	₩ 5,193,272	₩ 7,156,510

Changes in allowances for loan losses on other assets for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016		
	Other financial assets	Other non-financial assets	Total
Beginning	₩ 286,915	₩ 23,128	₩ 310,043
Provision	1,943	717	2,660
Written-off	(269,949)	(540)	(270,489)
Others	41,153	-	41,153
Ending	₩ 60,062	₩ 23,305	₩ 83,367

(In millions of Korean won)	2015		
	Other financial assets	Other non-financial assets	Total
Beginning	₩ 288,245	₩ 23,174	₩ 311,419
Provision(reversal)	(883)	838	(45)
Written-off	(2,365)	(884)	(3,249)
Others	1,918	-	1,918
Ending	₩ 286,915	₩ 23,128	₩ 310,043

18. Assets Held for Sale

Details of assets held for sale as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016			
	Acquisition cost[1]	Accumulated impairment losses	Carrying amount	Fair value less costs to sell
Land	₩ 27,787	₩ (8,177)	₩ 19,610	₩ 21,182
Buildings	12,675	(5,758)	6,917	7,201
	₩ 40,462	₩ (13,935)	₩ 26,527	₩ 28,383

(In millions of Korean won)	2015			
	Acquisition cost[1]	Accumulated impairment losses	Carrying amount	Fair value less costs to sell
Land	₩ 35,996	₩ (8,531)	₩ 27,465	₩ 28,658
Buildings	11,660	(5,330)	6,330	6,789
	₩ 47,656	₩ (13,861)	₩ 33,795	₩ 35,447

[1] Acquisition cost of buildings held for sale is net of accumulated depreciation before classified as assets held for sale.

The valuation technique and input variables that are used to measure the fair value of assets held for sale as of December 31, 2016, are as follows:

(In millions of Korean won)		2016			
	Fair value	Valuation technique[1]	Unobservable inputs[2]	Range of unobservable inputs (%)	Effect of unobservable inputs on fair value
Land and buildings	₩ 28,700	Market comparison approach model and others	Adjustment index	0.27 ~ 1.05	Fair value increases as the adjustment index rises
			Adjustment ratio	-20.00 ~ 0.00	Fair value decreases as the absolute value of adjustment ratio rises

[1] The appraisal value is adjusted by the adjustment ratio in the event the public sale is unsuccessful.
[2] Adjustment index is calculated using the real estate index or the producer price index, or land price volatility.

The fair values of assets held for sale were measured by qualified independent appraisers with experience in valuing similar properties in the same area. In addition, per the fair value hierarchy on Note 6.1, the fair value hierarchy of all investment properties has been categorized and classified as Level 3.

Changes in accumulated impairment losses of assets held for sale for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

2016				
Beginning	Provision	Reversal	Others	Ending
₩ (13,861)	₩ (5,268)	₩ 96	₩ 5,098	₩ (13,935)

(In millions of Korean won)

2015				
Beginning	Provision	Reversal	Others	Ending
₩ (20,246)	₩ (2,110)	₩ 399	₩ 8,096	₩ (13,861)

As of December 31, 2016, assets held for sale consist of 10 real estates of closed offices, which the management of the Group was committed to sell, but not yet sold by December 31, 2016. As of the report date, four out of the above assets held for sale are under a sale negotiation and the remaining 6 assets are also being actively marketed.

19. Deposits

Details of deposits as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Demand deposits		
Demand deposits in Korean won	₩ 103,123,086	₩ 91,959,685
Demand deposits in foreign currencies	5,009,480	4,122,010
	108,132,566	96,081,695
Time deposits		
Time deposits in Korean won	120,469,784	120,035,078
Fair value adjustments on fair value hedged time deposits in Korean won	-	(201)
	120,469,784	120,034,877
Time deposits in foreign currencies	4,314,783	3,623,160
Fair value adjustments on fair value hedged time deposits in foreign currencies	(61,656)	(17,672)
	4,253,127	3,605,488
	124,722,911	123,640,365
Certificates of deposits	2,880,557	4,611,447
Total deposits	₩ 235,736,034	₩ 224,333,507

20. Debts

Details of debts as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Borrowings	₩ 11,952,068	₩ 11,684,566
Bonds sold under repurchase agreements and others	1,271,908	596,343
Call money	2,710,433	2,010,906
	₩ 15,934,409	₩ 14,291,815

Details of borrowings as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)		Lenders	Annual interest rate (%)	2016	2015
Borrowings in Korean won	Borrowings from the Bank of Korea	Bank of Korea	0.50 ~ 0.75	₩ 1,644,260	₩ 1,421,375
	Borrowings from the government	KEMCO and others	0.00 ~ 3.00	1,331,688	1,156,670
	Borrowings from banking institutions	Industrial Bank of Korea	-	-	180
	Borrowings from non-banking financial institutions	Korea Development Bank	0.20 ~ 2.70	320,755	284,369
	Other borrowings	Korea Gas Safety Corporation and others	0.00 ~ 7.50	2,636,273	2,830,933
				5,932,976	5,693,527
Borrowings in foreign currencies	Due to banks	JP Morgan Chase Bank and others	-	70,624	9,884
	Borrowings from banking institutions	MIZUHO bank and others	0.00 ~ 3.18	3,949,377	3,530,561
	Borrowings from other financial institutions	Export Import Bank of Korea and others	1.35 ~ 2.25	121,104	212,507
	Other borrowings	Standard Chartered Bank and others	-	1,877,987	2,238,087
				6,019,092	5,991,039
				₩ 11,952,068	₩ 11,684,566

Details of bonds sold under repurchase agreements and others as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	Lenders	Annual interest rate (%)	2016	2015
Bonds sold under repurchase agreements	Individuals, groups, corporations	0.00 ~ 1.21	₩ 1,261,371	₩ 568,486
Bills sold	Counter sale	0.40 ~ 1.00	10,537	27,857
			₩ 1,271,908	₩ 596,343

Details of call money as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	Lenders	Annual interest rate (%)	2016	2015
Call money in Korean won	Korea Development Bank and others	1.08 ~ 1.23	₩ 1,525,500	₩ 926,400
Call money in foreign currencies	Central Bank of Uzbekistan and others	0.08 ~ 3.30	1,184,933	1,084,506
			₩ 2,710,433	₩ 2,010,906

21. Debentures

Details of debentures as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	Annual interest rate (%)	2016	2015
Debentures in Korean won			
Structured debentures	0.29 ~ 6.70	₩ 337,500	₩ 909,788
Subordinated fixed rate debentures in Korean won	3.08 ~ 5.12	3,196,993	4,471,829
Fixed rate debentures in Korean won	1.29 ~ 4.09	7,259,095	6,750,523
Floating rate debentures in Korean won	1.36 ~ 1.37	680,000	-
		11,473,588	12,132,140
Fair value adjustments on fair value hedged debentures in Korean won		26,724	40,170
Discount on debentures in Korean won		(9,560)	(6,412)
		11,490,752	12,165,898
Debentures in foreign currencies			
Floating rate debentures	1.44~1.76	700,930	1,477,524
Fixed rate debentures	1.38~3.63	2,803,721	2,325,537
		3,504,651	3,803,061
Fair value adjustments on fair value hedged debentures in foreign currencies		(24,303)	(10,415)
Discount on debentures in foreign currencies		(11,408)	(9,410)
		3,468,940	3,783,236
		₩ 14,959,692	₩ 15,949,134

Changes in debentures based on face value for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016				
	Beginning	**Issues**	**Repayments**	**Others**	**Ending**
Debentures in Korean won					
Structured debentures	₩ 909,788	₩ -	₩ (572,288)	₩ -	₩ 337,500
Subordinated fixed rate debentures	4,471,829	-	(1,274,836)	-	3,196,993
Fixed rate debentures	6,750,523	3,359,000	(2,850,428)	-	7,259,095
Floating rate debentures	-	680,000	-	-	680,000
	12,132,140	4,039,000	(4,697,552)	-	11,473,588
Debentures in foreign currencies					
Floating rate debentures	1,477,524	35,595	(806,459)	(5,730)	700,930
Fixed rate debentures	2,325,537	1,185,480	(817,096)	109,800	2,803,721
	3,803,061	1,221,075	(1,623,555)	104,070	3,504,651
	₩15,935,201	₩5,260,075	₩ (6,321,107)	₩ 104,070	₩14,978,239

(In millions of Korean won)	2015				
	Beginning	**Issues**	**Repayments**	**Others**	**Ending**
Debentures in Korean won					
Structured debentures	₩ 1,239,238	₩ 120,000	₩ (449,450)	₩ -	₩ 909,788
Subordinated fixed rate debentures	4,566,124	-	(94,295)	-	4,471,829
Fixed rate debentures	6,390,553	4,080,000	(3,720,030)	-	6,750,523
Floating rate debentures	150,000	-	(150,000)	-	-
	12,345,915	4,200,000	(4,413,775)	-	12,132,140
Debentures in foreign currencies					
Floating rate debentures	1,318,415	179,565	(111,939)	91,483	1,477,524
Fixed rate debentures	1,578,980	1,013,959	(378,577)	111,175	2,325,537
	2,897,395	1,193,524	(490,516)	202,658	3,803,061
	₩15,243,310	₩5,393,524	₩ (4,904,291)	₩202,658	₩15,935,201

22. Provisions

Details of provisions as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Provisions for unused loan commitments	₩ 124,991	₩ 126,282
Provisions for acceptances and guarantees	126,428	158,454
Provisions for asset retirement obligation	77,810	70,493
Others	96,055	95,169
	₩ 425,284	₩ 450,398

Changes in provisions for unused loan commitments, acceptances and guarantees for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016		
	Provisions for unused loan commitments	Provisions for acceptances and guarantees	Total
Beginning	₩ 126,282	₩ 158,454	₩ 284,736
Effects of changes in foreign exchange rate	203	738	941
Provision(Reversal)	(1,494)	(32,764)	(34,258)
Ending	₩ 124,991	₩ 126,428	₩ 251,419

(In millions of Korean won)	2015		
	Provisions for unused loan commitments	Provisions for acceptances and guarantees	Total
Beginning	₩ 125,345	₩ 207,927	₩ 333,272
Effects of changes in foreign exchange rate	789	4,808	5,597
Provision(Reversal)	148	(54,281)	(54,133)
Ending	₩ 126,282	₩ 158,454	₩ 284,736

Changes in provisions for asset retirement obligation for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Beginning	₩ 70,493	₩ 68,999
Provision	3,693	1,941
Reversal	(250)	(363)
Used	(4,788)	(2,779)
Unwinding of discount	1,631	1,941
Effects of changes in discount rate	7,031	754
Ending	₩ 77,810	₩ 70,493

Provisions for asset retirement obligation are present value of estimated costs to be incurred for restoration of the leased properties. Actual expenses are expected to be incurred at the end of each lease contract. Three-year historical data of expired leases were used to estimate the average lease year. Also, the average restoration expense based on actual three-year historical data and the three-year historical average inflation rate were used to estimate the present value of estimated costs.

Changes in other provisions for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016						
	Membership rewards program	**Dormant accounts**	**Litigations**	**Financial guarantee liabilities**	**Greenhouse Gas Emission liabilities**[1]	**Others**	**Total**
Beginning	₩ 99	₩ 41,091	₩ 11,570	₩ 3,809	₩ 69	₩ 38,531	₩ 95,169
Provision (Reversal)	180	32,464	(1,456)	(1,939)	434	3,036	32,719
Used and Others	(164)	(23,159)	(1,577)	-	(145)	(6,788)	(31,833)
Ending	₩ 115	₩ 50,396	₩ 8,537	₩ 1,870	₩ 358	₩ 34,779	₩ 96,055

[1] As of December 31, 2016, the estimated greenhouse gas emission is 117,831 tons.

(In millions of Korean won)

	2015						
	Membership rewards program	**Dormant accounts**	**Litigations**	**Financial guarantee liabilities**	**Greenhouse Gas Emission liabilities**[1]	**Others**	**Total**
Beginning	₩ 76	₩ 33,996	₩ 2,622	₩ 2,718	₩ -	₩ 41,692	₩ 81,104
Provision	159	27,056	9,226	1,091	69	37,860	75,461
Used and Others	(136)	(19,961)	(278)	-	-	(41,021)	(61,396)
Ending	₩ 99	₩ 41,091	₩ 11,570	₩ 3,809	₩ 69	₩ 38,531	₩ 95,169

[1] As of December 31, 2016, the estimated greenhouse gas emission is 122,542 tons.

23. Net Defined Benefit Liabilities

Defined benefit plan

The Group operates defined benefit plans which have the following characteristics:

- The Group has the obligation to pay the agreed benefits to all its current and former employees.
- Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the Group.

The net defined benefit liability recognized in the statements of financial position is calculated in accordance with actuarial valuation methods. Data such as discount rates, future salary increase rates, and mortality rates based on market data and historical data are used. Actuarial assumptions may differ from actual results, due to changes in the market, economic trends and mortality trends.

Changes in the net defined benefit liabilities for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016		
	Present value of defined benefit obligation	**Fair value of plan assets**	**Net defined benefit liabilities**
Beginning	₩ 1,260,675	₩ (1,205,006)	₩ 55,669
Current service cost	159,268	-	159,268
Interest expense(income)	31,105	(29,723)	1,382
Remeasurements :			
-Actuarial gain arising from changes in demographic assumptions	2,164	-	2,164
-Actuarial gain arising from changes in financial assumptions	(26,509)	-	(26,509)
-Actuarial loss arising from experience adjustment	4,000	-	4,000
-Return on plan assets (excluding amounts included in interest income)	-	9,655	9,655
Contributions	-	(130,000)	(130,000)
Payments from plans (benefit payments)	(45,733)	45,733	-
Payments from the Group	(4,496)	-	(4,496)
Transfer in	2,252	(2,236)	16
Transfer out	(2,508)	2,508	-
Effects of changes in foreign exchange rate	18	-	18
Ending	₩ 1,380,236	₩ (1,309,069)	₩ 71,167

(In millions of Korean won)	2015		
	Present value of defined benefit obligation	**Fair value of plan assets**	**Net defined benefit liabilities**
Beginning	₩ 1,150,368	₩ (1,092,875)	₩ 57,493
Current service cost	162,459	-	162,459
Interest expense (income)	34,147	(32,433)	1,714
Remeasurements :			
-Actuarial gain arising from changes in demographic assumptions	(1,879)	-	(1,879)
-Actuarial gain arising from changes in financial assumptions	(508)	-	(508)
-Actuarial loss arising from experience adjustment	10,631	-	10,631
-Return on plan assets (excluding amounts included in interest income)	-	10,877	10,877
Contributions	-	(180,000)	(180,000)
Payments from plans (benefit payments)	(88,266)	88,266	-
Payments from the Group	(5,152)	-	(5,152)
Transfer in	1,993	(1,981)	12
Transfer out	(3,140)	3,140	-
Effects of changes in foreign exchange rate	22	-	22
Ending	₩ 1,260,675	₩ (1,205,006)	₩ 55,669

Details of the net defined benefit liabilities as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Present value of defined benefit obligation	₩ 1,380,236	₩ 1,260,675
Fair value of plan assets	(1,309,069)	(1,205,006)
Net defined benefit liabilities	₩ 71,167	₩ 55,669

Details of post-employment benefits recognized in profit or loss as employee compensation and benefits for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Current service cost	₩ 159,268	₩ 162,459
Interest expenses of net defined benefit liabilities	1,382	1,714
Total	₩ 160,650	₩ 164,173

Remeasurements of net defined benefit liabilities recognized as other comprehensive income for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Remeasurements:		
-Actuarial gain(loss) arising from changes in demographic assumptions	₩ (2,164)	₩ 1,879
-Actuarial loss arising from changes in financial assumptions	26,509	508
-Actuarial gain arising from experience adjustment	(4,000)	(10,631)
-Return on plan assets (excluding amounts included in interest income)	(9,655)	(10,877)
Income tax effects	(2,587)	4,627
Remeasurements after income tax	₩ 8,103	₩ (14,494)

Details of fair value of plan assets as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**		
	Assets quoted in an active market	**Assets not quoted in an active market**	**Total**
Time deposits	₩ -	₩ 1,309,069	₩ 1,309,069

(In millions of Korean won)	**2015**		
	Assets quoted in an active market	**Assets not quoted in an active market**	**Total**
Time deposits	₩ -	₩ 1,205,006	₩ 1,205,006

Key actuarial assumptions used as of December 31, 2016 and 2015, are as follows:

	Ratio (%)	
	2016	**2015**
Discount rate	2.50	2.50
Salary increase rate	3.75	4.00
Turnover	1.00	1.00

Mortality assumptions are based on the 8th experience-based mortality table of Korea Insurance Development Institute of 2015.

The sensitivity of the defined benefit obligation to changes in the principal assumptions as of December 31, 2016, is as follows:

		Effect on defined benefit obligation	
	Changes in principal assumption	**Increase in principal assumption**	**Decrease in principal assumption**
Discount rate	0.5% p	3.92% decrease	4.19% increase
Salary increase rate	0.5% p	3.85% increase	3.63% decrease
Turnover	0.5% p	0.31% decrease	0.33% increase

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to significant actuarial assumptions is calculated using the projected unit credit method which is used to calculate the defined benefit obligation.

Expected maturity analysis of undiscounted pension benefits as of December 31, 2016, is as follows:

(In millions of Korean won)	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Between 5 and 10 years**	**Over 10 years**	**Total**
Pension benefits	₩ 184,946	₩ 113,342	₩ 371,420	₩ 759,236	₩ 2,244,327	₩ 3,673,271

The weighted average duration of the defined benefit obligations is 8.31 years.

Expected contributions to plan assets for the period after December 31, 2016, are estimated to be approximately ₩ 140,000 million.

24. Other Liabilities

Details of other liabilities as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Other financial liabilities		
Other payables	₩ 2,782,247	₩ 3,016,175
Prepaid card and debit cards	1,929	2,107
Accrued expenses	2,380,057	2,538,380
Financial guarantee liabilities	22,377	12,355
Deposits for letter of guarantees and others	189,286	211,388
Domestic exchange settlement credits	1,332,503	118,599
Foreign exchanges settlement credits	116,226	53,367
Borrowings from other business accounts	5,204	47,707
Payables to trust accounts	4,430,508	2,791,404
Liabilities incurred from agency relationship	386,670	488,325
Account for agency businesses	248,253	321,557
Others	201,799	10,897
	12,097,059	9,612,261
Other non-financial liabilities		
Other payables	1,193,758	68,449
Unearned revenue	35,733	39,815
Accrued expenses	191,338	176,643
Withholding taxes	103,849	108,225
Others	80,833	64,198
	1,605,511	457,330
	₩ 13,702,570	₩ 10,069,591

25. Equity

25.1 Capital Stock

Details of outstanding shares of the Bank as of December 31, 2016 and 2015, are as follows:

	Ordinary shares	
	2016	2015
Number of shares authorized	1,000,000,000	1,000,000,000
Face value per share	₩ 5,000	₩ 5,000
Number of shares	404,379,116	404,379,116
Capital stock[1]	₩ 2,021,896	₩ 2,021,896

[1] In millions of Korean won.

25.2 Capital Surplus

Details of capital surplus as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Paid-in capital in excess of face value	₩ 4,604,417	₩ 4,604,417
Gain on business combination	397,669	397,669
Revaluation increment	177,229	177,229
Other capital surplus	40,389	40,389
	₩ 5,219,704	₩ 5,219,704

The gain on business combination is a gain from a bargain purchase related to the merger with Korea Long Term Credit Bank on December 31, 1998, in accordance with previous Korean GAAP.

25.3 Accumulated Other Comprehensive Income

Details of accumulated other comprehensive income as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Remeasurements of net defined benefit liabilities	₩ (94,079)	₩ (102,182)
Currency translation differences	27,509	32,993
Gains on valuation of available-for-sale financial assets	680,965	682,818
Losses on valuation of equity method investments	(87,577)	(87,346)
Gains on cash flow hedging instruments	337	-
Losses on hedges of a net investment in a foreign operations	(32,292)	(25,476)
	₩ 494,863	₩ 500,807

25.4 Retained Earnings

Retained earnings as of December 31, 2016 and 2015, consist of:

(In millions of Korean won)	2016	2015
Legal reserves	₩ 2,033,471	₩ 2,033,463
Regulatory reserve for credit losses	1,835,115	1,867,761
Voluntary reserves	10,596,846	9,893,452
Retained earnings before appropriation	1,123,107	1,210,128
	₩ 15,588,539	₩ 15,004,804

With respect to the allocation of net profit earned in a fiscal term, the Bank must set aside in its legal reserve an amount equal to at least 10% of its net income after tax as reported in the separate statement of comprehensive income each time it pays dividends on its net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital in accordance with Article 40 of the Banking Act. The reserves can only be transferred to capital stock or be used to reduce deficit. With respect to the Bank's branches overseas, a portion of the branch's net income is appropriated into legal reserves, in line with the financial legislation of the country where the overseas branch is located.

Regulatory Reserve for Credit Losses

Measurement and Disclosure of Regulatory Reserve for Credit Losses are required in accordance with Articles 29.1 through 29.2 of Regulation on Supervision of Banking Business.

Details of the regulatory reserve for credit losses as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Beginning	₩ 1,835,115	₩ 1,867,761
Amounts estimated to be appropriated(reversed)	165,948	(32,646)
Ending	₩ 2,001,063	₩ 1,835,115

Adjustments to the regulatory reserve for credit losses for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Provision (reversal) of regulatory reserve for credit losses	₩ 165,948	₩ (32,646)
Adjusted profit after provision of regulatory reserve for credit losses[1]	798,308	1,139,884

[1] Adjusted profit after provision of regulatory reserve for credit losses is not accordance with Korean IFRS and calculated on the assumption that provision of regulatory reserve for credit losses before income tax is adjusted to the profit.

26. Interest Income and Expense

Details of interest income, expense, and net interest income for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Interest income		
Due from financial institutions	₩ 71,659	₩ 112,024
Loans	7,038,659	7,380,610
Financial investments		
Available-for-sale financial assets	313,850	386,427
Held-to-maturity financial assets	365,548	392,658
Others	104,440	116,663
	7,894,156	8,388,382
Interest expense		
Deposits	2,455,044	3,030,091
Debts	166,488	167,785
Debentures	396,508	418,979
Others	47,206	59,780
	3,065,246	3,676,635
Net interest income	₩ 4,828,910	₩ 4,711,747

Interest income recognized on impaired loans is ₩ 41,990 million (December 31, 2015: ₩ 51,218 million) for the year ended December 31, 2016.

27. Net Fee and Commission Income

Details of fee and commission income, and fee and commission expense for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Fee and commission income		
Banking activity fees	₩ 182,412	₩ 173,442
Lending activity fees	78,780	87,202
Agent activity fees	387,055	406,123
Trust and other fiduciary fees	182,405	241,246
Guarantee fees	30,538	29,924
Credit card related fees	1,293	1,420
Foreign currency related fees	97,394	97,148
Security activity commissions	157,218	160,211
Other business account commission on consignment	33,707	30,525
Debit card related fees and commissions	634	680
Others	158,946	144,133
	1,310,382	1,372,054
Fee and commission expense		
Trading activity related fees[1]	11,884	10,531
Lending activity fees	23,694	21,225
Credit card related fees	1,925	1,096
Contributions to external institutions	21,988	22,318
Outsourcing related fees	59,914	62,475
Foreign currency related fees	15,694	12,286
Management fees of written-off loans	11,925	12,667
Others	75,507	73,083
	222,531	215,681
Net fee and commission income	₩ 1,087,851	₩ 1,156,373

[1] Fees from financial assets/liabilities at fair value through profit or loss.

28. Net Gains or Losses from Financial Assets/Liabilities at Fair Value Through Profit or Loss

28.1 Net gains or losses from financial instruments held for trading

Net gains or losses from financial instruments held for trading are composed of gains or losses from financial instruments held for trading includes interest income, dividend income, gains or losses arising from changes in the fair values, sales and redemptions.

Details for the years ended December 31, 2016 and 2015, are as follows:,

(In millions of Korean won)	**2016**	**2015**
Gains from financial instruments held for trading		
Financial assets held for trading		
Debt securities	₩ 203,083	₩ 224,641
Equity securities	5,818	11,487
	208,901	236,128
Derivatives held for trading		
Interest rate	972,660	976,180
Currency	3,719,392	2,287,541
Stock or stock index	456	13,727
Other	859	803
	4,693,367	3,278,251
Financial liabilities held for trading	528	-
Other financial instruments	239	2,166
	4,903,035	3,516,545
Losses from financial instruments held for trading		
Financial assets held for trading		
Debt securities	69,187	34,713
Equity securities	2,819	9,237
	72,006	43,950
Derivatives held for trading		
Interest rate	924,404	988,989
Currency	3,708,355	2,178,142
Stock or stock index	7,620	12,877
Other	772	241
	4,641,151	3,180,249
Financial liabilities held for trading	2,410	-
Other financial instruments	174	2,213
	4,715,741	3,226,412
Net gain or loss from financial instruments held for trading	₩ 187,294	₩ 290,133

28.2 Net gains or losses from financial instruments designated at fair value through profit or loss

Net gains or losses from financial instruments designated at fair value through profit or loss includes interest income, dividend income, gains or losses arising from changes in the fair values, sales and redemptions. Details for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2015**	**2015**
Gains from financial assets designated at fair value through profit or loss		
Derivative linked securities	₩ 9,604	₩ 1,697
Losses from financial assets designated at fair value through profit or loss		
Derivative linked securities	-	4,802
Net gains or losses from financial assets designated at fair value through profit or loss	₩ 9,604	₩ (3,105)

29. Other operating income and expenses

Details of other operating income and expenses for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Other operating income		
Revenue related to available-for-sale financial assets		
Gains on redemption of available-for-sale financial assets	₩ 226	₩ 313
Gains on sale of available-for-sale financial assets	169,482	397,757
	169,708	398,070
Gains on foreign exchange transactions	3,328,516	2,422,525
Dividend income	85,339	84,538
Others	165,738	183,365
	3,749,301	3,088,498
Other operating expenses		
Expense related to available-for-sale financial assets		
Losses on sale of available-for-sale financial assets	27,966	2,142
Impairment losses on available-for-sale financial assets	22,225	216,027
	50,191	218,169
Losses on foreign exchange transactions	3,211,954	2,399,321
Others	888,206	892,734
	4,150,351	3,510,224
Net other operating expenses	₩ (401,050)	₩ (421,726)

30. General and Administrative Expenses

30.1 General and Administrative Expenses

Details of general and administrative expenses for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Employee Benefits		
Salaries and short-term employee benefits - salaries	₩ 1,469,499	₩ 1,442,575
Salaries and short-term employee benefits - welfare expense	659,522	696,210
Post-employment benefits - defined benefit plans	160,650	164,173
Post-employment benefits - defined contribution plans	3,729	5,085
Termination benefits	862,539	390,245
Share-based payments	19,347	11,915
	3,175,286	2,710,203
Depreciation and amortization	219,934	204,467
Other general and administrative expenses		
Rental expense	240,021	237,800
Tax and dues	81,669	97,721
Communication	22,990	24,046
Electricity and utilities	23,006	23,858
Publication	12,653	13,816
Repairs and maintenance	11,875	12,085
Vehicle	7,224	7,833
Travel	3,833	3,581
Training	16,998	18,402
Service fees	89,243	87,704
Others	364,217	370,305
	873,729	897,151
	₩ 4,268,949	₩ 3,811,821

30.2 Share-based Payments

30.2.1 Share Options

There are no share options outstanding for the year ended December 31, 2016. The changes in the number of granted share options and the weighted average exercise price for the year ended December 31, 2015, were as follows:

(In Korean won, except shares)

	2015					
	Number of granted shares			Number of exercisable shares	Exercise price per share	Remaining contractual life(Years)
Share options	Beginning	Expired	Ending			
Series 22	657,498	657,498	-	-	₩ -	-
Series 23	15,246	15,246	-	-	-	-
	672,744	672,744	-	-		
Weighted average exercise price	₩ 77,268	₩ 77,268	₩ -	₩ -		

There was no intrinsic value of the vested share options as of December 31, 2015

30.2.2 Share Grants

The Group changed the scheme of share-based payment from share option to share grants in November 2007. The share grant award program is an incentive plan that sets, on grant date, the maximum number of shares that can be awarded. Actual shares to be granted is determined in accordance with achievement of performance targets over the vesting period.

Details of the share grants as of December 31, 2016, are as follows:

(In number of shares)

Share grants	Grant date	Number of granted shares[1]	Vesting conditions
Series 60	2015.01.01	277,205	Service period : 2 years [2,3]
Series 61	2015.04.14	8,390	Service period : 2 years [2,3]
Series 62	2015.01.12	16,505	Service period : 2 years [2,3]
Series 64	2015.07.24	21,153	Service period : 2 years [2,3]
Series 65	2015.08.26	13,828	Service period : 2 years [2,3]
Series 66	2014.11.21	28,392	Service period : 3 years [2,4]
Series 67	2016.01.01	164,063	Service period : 2 years [2,5]
Series 68	2016.07.05	9,621	Service period : 2 years [2,5]
Deferred grant in 2013	-	22,335	
Deferred grant in 2014	-	70,766	
Deferred grant in 2015	-	88,848	
		721,106	

[1] Granted shares in relation to Series 60 ~ 62 and 64 ~ 68 represent the total number of shares granted to directors and employees but not vested at the end of reporting period. The number of deferred grants represents residual shares that have been vested at the end of reporting period.

[2] Options are given to the executives and employees during the year for deferred payment schedule(after the retirement date), payment proportion and payment period. Due to these given options, the deferred payment period might be a maximum of five years after the retirement date.
[3] In general, 40%, 30% and 30% of the number of shares to be granted are determined upon the accomplishment of the targeted performance results, the targeted relative TSR and the targeted financial results of the Bank, respectively. However, as for certain number of shares, half of the number of shares to be granted is determined based on the accomplishment of the targeted relative TSR, while the other half is determined by the targeted performance results.
[4] The 35%, 35% and 30% of the number of shares to be granted are determined upon the accomplishment of the targeted EPS, the targeted relative TSR and the targeted asset quality, respectively.
[5] In general, 40%, 30% and 30% of the number of shares to be granted are determined upon the accomplishment of performance results, relative TSR and evaluation by the Bank's CEO, respectively. However, as for certain number of shares, half of the number of shares to be granted is determined based on the accomplishment of the targeted relative TSR, while the other half is determined by the targeted performance results.

Details of share grants linked to short-term performance as of December 31, 2016, are as follows:

Share grants[1]	Grant date	Number of vested shares	Vesting conditions
Granted shares for 2013	2013.01.01	33,999	Vested
Granted shares for 2014	2014.01.01	107,427	Vested
Granted shares for 2015	2015.01.01	140,999	Vested
Granted shares for 2016	2016.01.01	133,598	Proportion to service period

[1] Options are given to the executives and employees during the year for deferred payment schedule(after the retirement date), payment proportion and payment period. Due to these given options, the deferred payment period might be a maximum of five years after the retirement date.

Share grants are measured at fair value using the Monte Carlo Simulation Model and assumptions used in determining the fair value as of December 31, 2016, are as follows:

(In Korean won)	**Expected exercise period (Years)**	**Risk free rate (%)**	**Fair value (Market performance condition)**	**Fair value (Non-market performance condition)**
Linked to long-term performance				
Series 60	0.00~7.00	1.57	42,868	41,367 ~ 42,824
Series 61	0.00~3.00	1.57	42,169	42,295 ~ 42,824
Series 62	0.00~3.00	1.57	42,868	42,295 ~ 42,824
Series 64	0.00~5.00	1.57	42,288	41,673 ~ 42,824
Series 65	0.65~4.00	1.57	42,144	42,003 ~ 42,680
Series 66	0.89~3.89	1.57	48,889	41,916 ~ 42,670
Series 67	0.00~6.00	1.57	44,134	41,471 ~ 42,824
Series 68	1.51~5.00	1.58	43,273	41,673 ~ 42,380
Grant deferred in 2013	-	1.57	-	42,824
Grant deferred in 2014	0.00~1.00	1.57	-	42,680 ~ 42,824
Grant deferred in 2015	0.00~4.00	1.57	-	42,003 ~ 42,824
Linked to short-term performance				
Share granted in 2013	-	1.57	-	32,810~42,824
Share granted in 2014	0.00~1.02	1.57	-	37,829~42,872
Share granted in 2015	0.00~6.00	1.57	-	41,471~42,824
Share granted in 2016	1.00~7.00	1.57	-	41,367~42,680

Expected volatility is based on the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the grant and the current stock price as of December 31, 2016, was used for the underlying asset price. Also, the average three-year historical dividend rate was used as the expected dividend rate.

As of December 31, 2016 and 2015, the accrued expenses related to share-based payments, including share grants, amounted to ₩ 41,474 million and ₩ 33,754 million, respectively, and the compensation costs from share grants amounting to ₩ 19,347 million and ₩ 11,915 million were incurred during the year ended December 31, 2016 and 2015, respectively.

30.2.3 Mileage Stock

Details of Mileage Stock as of December 31, 2016, are as follows:

(In number of shares)	**Grant date**	**Number of granted shares[1]**	**Expected exercise period (Years)[1]**	**Number of exercisable shares[2]**
Share granted in 2016	2016.01.23	33,836	0.00~2.06	33,025
	2016.04.29	66	0.00~2.33	66
	2016.07.07	280	0.00~2.52	280
	2016.07.18	767	0.00~2.55	767
	2016.08.03	120	0.00~2.59	120
	2016.08.17	66	0.00~2.63	66
	2016.08.30	256	0.00~2.66	256
	2016.09.06	373	0.00~2.68	373
	2016.10.07	105	0.00~2.77	105
	2016.11.01	118	0.00~2.84	118
	2016.12.07	44	0.00~2.93	44
	2016.12.08	23	0.00~2.94	23
	2016.12.15	12	0.00~2.96	12
	2016.12.20	309	0.00~2.97	309
	2016.12.28	45	0.00~2.99	45
	2016.12.30	210	0.00~3.00	210
		36,630		35,819

[1] Mileage stock is exercisable for two years after one year from the grant date. When the mileage stock is exercised, the closing price of prior month is applied. However, in case of transfer or retirement during the vesting period, mileage stock is exercisable at the closing price of the last month prior to transfer or retirement.

[2] The exercisable shares are assessed based on the stock price as of December 31, 2016. These shares are vested immediately at grant date.

The accrued expenses for share-based payments in regard to mileage stock as of December 31, 2016, are ₩ 1,533 million. The compensation costs amounting to ₩ 1,563 million were recognized as an expense for the year ended December 31, 2016.

31. Non-operating Income and Expenses

Details of non-operating income and expenses for years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Non-operating income		
Gains of disposal in property and equipment and assets held for sale	₩ 1,342	₩ 1,017
Rent received	28,303	28,560
Others	80,927	258,716
	110,572	288,293
Non-operating expenses		
Losses of disposal in property and equipment and assets held for sale	1,370	927
Donation	31,813	41,839
Restoration cost	2,421	722
Others	25,657	51,369
	61,261	94,857
Net non-operating income(expenses)	₩ 49,311	₩ 193,436

32. Income Tax Expense

Income tax expense for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Tax payable		
Current tax expense	₩ 492,690	₩ 207,579
Adjustments recognized in the period for current tax of prior years	21,521	(16,207)
	514,211	191,372
Changes in deferred income tax assets (liabilities)	(204,625)	51,908
Income tax expense of overseas branches	3,447	3,827
Income tax recognized directly in equity		
Changes in value of available-for-sale financial assets	961	24,707
Changes in exchange difference of foreign operation	(3,154)	-
Changes in remeasurements of net defined benefit liabilities	(2,587)	4,627
Gains on hedging investment of a net investment in a foreign operation	2,176	8,134
Gains(Losses) on cash flow hedging instruments	(108)	-
Others	74	(778)
	(2,638)	36,690
Consolidated tax effect	(18,394)	(9,806)
Tax expense	₩ 292,001	₩ 273,991

An analysis of the net profit before income tax and income tax expense for the years ended December 31, 2016 and 2015, follows:

(In millions of Korean won)	2016	2015
Profit before income tax	₩ 1,256,257	₩ 1,381,229
Tax at the applicable tax rate[1]	303,552	333,796
Non-taxable income	(8,182)	(53,443)
Non-deductible expense	13,933	13,713
Tax credit and tax exemption	(241)	(397)
Temporary difference for which no deferred tax is recognized	3,877	5,082
Tax supplementary pay(rebate) for tax of prior years	(12,954)	(21,222)
Income tax expense of overseas branches	3,447	3,827
Tax effect of investments in subsidiaries	7,143	1,241
Foreign subsidiary tax rate difference effect	(730)	(671)
Consolidated tax effect	(18,394)	(9,806)
Others	550	1,871
Tax expense	₩ 292,001	₩ 273,991
Tax expense / Profit before income tax (%)	23.24	19.84

[1] Applicable income tax rate for ₩ 200 million and below is 11%, for over ₩ 200 million to ₩ 20 billion is 22%, and for over ₩ 20 billion is 24.2%.

Details of current tax liabilities (income tax payables) and current tax assets (income tax refund receivables) before offsetting, as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Income tax refund receivables prior to offsetting[1]	₩ (153,916)	₩ (229,470)
Tax payables prior to offsetting[2]	496,910	210,024
Tax payables (receivables) after offsetting	342,994	(19,446)
Adjustment on consolidated tax payable and others[3]	(18,394)	(9,806)
Accounts receivables (payables)[4]	(319,243)	36,373
Current tax payable	₩ 5,357	₩ 7,121

[1] Excludes current tax assets of ₩ 11,400 million (2015: ₩ 17,612 million) from uncertain tax position, which do not qualify for offsetting.

[2] Includes income tax payable of ₩ 5,357 million (2015: ₩ 7,121 million) under current tax liabilities as of December 31, 2016, which are not to be offset against any income tax refund receivables, such as those of overseas branches.

[3] Tax expense reduced due to the adoption of consolidated tax return was reclassified as tax benefit.

[4] The amount of income tax payable by the Group is reclassified as accounts payable, not to the tax authority, but to KB Financial Group Inc. due to the adoption of consolidated tax return.

33. Dividends

The dividend to the shareholder of the Bank in respect of the year ended December 31, 2016, of ₩ 889 per share, amounting to total dividends of ₩ 359,493 million, is to be proposed at the annual general shareholder's meeting on March 23, 2017. The Group's consolidated financial statements as of December 31, 2016, do not reflect this dividend payable.

34. Accumulated Other Comprehensive Income

Details of accumulated other comprehensive income for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016				
	Beginning	Changes (excluding reclassification)	Reclassification to profit or loss	Tax effect	Ending
Remeasurements of net defined benefit liabilities	₩ (102,182)	₩ 10,690	₩ -	₩ (2,587)	₩ (94,079)
Currency translation differences	32,993	(2,330)	-	(3,154)	27,509
Gains(losses) on valuation of available-for-sale financial assets	682,818	85,219	(88,033)	961	680,965
Gains(losses) on valuation of equity method investments	(87,346)	(305)	-	74	(87,577)
Gains(losses) on cash flow hedging instruments	-	445	-	(108)	337
Gains(losses) on hedges of a net investment in a foreign operations	(25,476)	(8,992)	-	2,176	(32,292)
	₩ 500,807	₩ 84,727	₩ (88,033)	₩ (2,638)	₩ 494,863

(In millions of Korean won)

	2015				
	Beginning	Changes (excluding reclassification)	Reclassification to profit or loss	Tax effect	Ending
Remeasurements of net defined benefit liabilities	₩ (87,688)	₩ (19,121)	₩ -	₩ 4,627	₩ (102,182)
Currency translation differences	(12,149)	45,142	-	-	32,993
Gains(losses) on valuation of available-for-sale financial assets	760,530	214,106	(316,525)	24,707	682,818
Gains(losses) on valuation of equity method investments	(89,882)	3,314	-	(778)	(87,346)
Gains(losses) on hedges of a net investment in a foreign operation	-	(33,610)	-	8,134	(25,476)
	₩ 570,811	₩ 209,831	₩ (316,525)	₩ 36,690	₩ 500,807

35. Trust Accounts

Financial information of the trust accounts the Group manages as of December 31, 2016 and 2015, and for the years ended December 31, 2016 and 2015, is as follows:

(In millions of Korean won)	2016		2015	
	Total assets	**Operating revenues**	**Total assets**	**Operating revenues**
Consolidated	₩ 3,978,501	₩ 120,348	₩ 3,754,063	₩ 125,392
Unconsolidated	43,653,701	1,132,375	34,216,814	1,334,526
	₩ 47,632,202	₩ 1,252,723	₩ 37,970,877	₩ 1,459,918

[1] Financial information of the trust accounts has been prepared in accordance with the Statement of Korea Accounting Standard 5004, *Trust Accounts*, and enforcement regulations of Financial Investment Services under the Financial Investment Services and Capital Markets Act.

Significant receivables and payables related to the Group's trust accounts as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Assets		
Accrued trust fees	₩ 28,855	₩ 27,796
Liabilities		
Due to trust accounts	4,430,508	2,791,403
Accrued interest on due to trust accounts	6,767	6,354
	₩ 4,437,275	₩ 2,797,757

Significant revenue and expenses related to the Group's trust for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Revenues		
Fees and commissions from trust accounts	₩ 182,405	₩ 241,246
Commissions from early termination in trust accounts	65	171
	₩ 182,470	₩ 241,417
Expenses		
Interest expenses on due to trust accounts	₩ 37,750	₩ 48,293

36. Supplemental Cash Flow Information

Cash and cash equivalents as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Cash	₩ 2,154,729	₩ 2,073,741
Checks with other banks	400,422	396,955
Due from Bank of Korea	7,676,491	6,791,990
Due from other financial institutions	4,450,204	5,300,304
	14,681,846	14,562,990
Restricted due from financial institutions	(7,859,701)	(6,905,907)
Due from financial institutions with original maturities over three months	(483,987)	(1,187,577)
	(8,343,688)	(8,093,484)
	₩ 6,338,158	₩ 6,469,506

Significant non-cash transactions for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Decrease in loans due to the write-offs	₩ 977,988	₩ 979,633
Changes in accumulated other comprehensive income due to valuation of financial investments	(1,853)	(77,712)
Changes in accumulated other comprehensive income due to investment in associates	(231)	2,536
Changes in financial investments due to debt-for-equity swap	43,820	14,729
Reclassification from investments in associates to available-for-sale financial assets	220,809	-

Cash inflows and outflows from income tax, interest and dividends for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	Activities	2016	2015
Income tax paid	Operating	₩ 91,082	₩ 99,296
Interest received	Operating	8,088,194	8,956,307
Interest paid	Operating	3,191,351	4,063,499
Dividends received	Operating	86,651	84,765
Dividends paid	Financing	380,521	230,496

37. Contingent Liabilities and Commitments

Acceptances and guarantees as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Confirmed acceptances and guarantees		
Confirmed acceptances and guarantees in Korean won		
Acceptances and guarantees for KB purchasing loan	₩ 329,051	₩ 422,316
Others	588,950	609,034
	918,001	1,031,350
Confirmed acceptances and guarantees in foreign currencies		
Acceptances of letter of credit	234,125	250,647
Letter of guarantees	64,189	51,500
Bid bond	64,242	62,402
Performance bond	703,076	1,006,304
Refund guarantees	1,689,343	1,924,030
Others	1,593,770	1,444,618
	4,348,745	4,739,501
Financial guarantees		
Acceptances and guarantee for issue of debentures	31,000	51,200
Acceptances and guarantees for mortgage	25,994	27,805
Overseas debt guarantees	272,255	374,769
International financing guarantees in foreign currencies	52,961	11,893
Others	270,000	-
	652,210	465,667
	5,918,956	6,236,518
Unconfirmed acceptances and guarantees		
Guarantees of letter of credit	2,068,106	2,142,496
Refund guarantees	217,272	1,019,116
	2,285,378	3,161,612
	₩ 8,204,334	₩ 9,398,130

Acceptances and guarantees by counterparty as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016			
	Confirmed guarantees	**Unconfirmed guarantees**	**Total**	**Proportion (%)**
Large companies	₩ 5,129,393	₩ 1,644,556	₩ 6,773,949	82.57
Small medium sized companies	623,422	479,515	1,102,937	13.44
Public and others	166,141	161,307	327,448	3.99
	₩ 5,918,956	₩ 2,285,378	₩ 8,204,334	100.00

(In millions of Korean won)

	2015			
	Confirmed guarantees	**Unconfirmed guarantees**	**Total**	**Proportion (%)**
Large companies	₩ 5,238,851	₩ 2,489,134	₩ 7,727,985	82.23
Small medium sized companies	833,355	517,703	1,351,058	14.38
Public and others	164,312	154,775	319,087	3.39
	₩ 6,236,518	₩ 3,161,612	₩ 9,398,130	100.00

Acceptances and guarantees by industry as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016			
	Confirmed guarantees	**Unconfirmed guarantees**	**Total**	**Proportion (%)**
Financial institutions	₩ 74,282	₩ 3,710	₩ 77,992	0.95
Manufacturing	3,315,257	1,141,571	4,456,828	54.32
Service	765,051	63,847	828,898	10.10
Wholesale and retail	1,171,151	779,163	1,950,314	23.77
Construction	509,329	129,111	638,440	7.78
Public	82,646	92,445	175,091	2.13
Others	1,240	75,531	76,771	0.95
	₩ 5,918,956	₩ 2,285,378	₩ 8,204,334	100.00

(In millions of Korean won)

	2015			
	Confirmed guarantees	**Unconfirmed guarantees**	**Total**	**Proportion (%)**
Financial institutions	₩ 108,031	₩ 3,664	₩ 111,695	1.19
Manufacturing	3,559,955	1,934,904	5,494,859	58.47
Service	584,333	68,494	652,827	6.95
Wholesale and retail	1,285,101	796,109	2,081,210	22.14
Construction	606,099	200,976	807,075	8.59
Public	73,160	106,288	179,448	1.91
Others	19,839	51,177	71,016	0.75
	₩ 6,236,518	₩ 3,161,612	₩ 9,398,130	100.00

Commitments as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016	**2015**
Commitments		
Corporate loan commitments	₩ 36,012,231	₩ 39,088,006
Retail loan commitments	15,727,639	15,051,360
Other acceptance and guarantees in Korean won	1,000,000	1,000,000
Purchase of securities	1,521,778	1,613,287
	54,261,648	56,752,653
Financial Guarantees		
Credit line	2,418,997	3,449,749
Purchase of securities	290,100	98,700
	2,709,097	3,548,449
	₩ 56,970,745	₩ 60,301,102

Other Matters (including litigation)

a) The Bank has filed 80 lawsuits (excluding minor lawsuits in relation to the collection or management of loans), as the plaintiff, involving aggregate claims of ₩ 435,413 million, and faces 116 lawsuits as the defendant (excluding minor lawsuits in relation to the collection or management of loans) involving aggregate damages of ₩ 382,322 million, which arose in the normal course of the business and are still pending as of December 31, 2016.

b) The face values of the securities sold to general customers through tellers' sale amount to ₩ 5,731 million and ₩ 11,254 million as of December 31, 2016 and 2015, respectively.

38. Subsidiaries

Details of subsidiaries as of December 31, 2016, are as follows:

Name of subsidiary	Ownership (%)	Location	Industry
Kookmin Bank Int'l Ltd.(London)	100.00	United Kingdom	Banking and foreign exchange transaction
Kookmin Bank Hongkong Ltd.	100.00	Hong Kong	Banking and foreign exchange transaction
Kookmin Bank Cambodia PLC.	100.00	Cambodia	Banking and foreign exchange transaction
Kookmin Bank (China) Ltd.[1]	100.00	China	Banking and foreign exchange transaction
Personal pension trust and 10 others [2]	-	Korea	Trust
KL the 1st L.L.C. and 20 others [3]	-	Korea	Asset-backed securitization and others
KB Haeorum Private securities 26 and 6 others [4]	100.00	Korea	Private equity fund
KB Wise Star Private Real Estate Feeder Fund 1 [4]	86.00	Korea	Investment Trust
KB Star Retail Private Real Estate Master Fund 1 [3, 5]	42.12	Korea	Investment Trust
KB Star Office Private Real Estate Master Fund 2 [3, 5]	38.22	Korea	Investment Trust

[1] For the year ended December 31, 2016, Kookmin Bank (China) Ltd.'s functional currency has changed from USD to CNY.
[2] The Bank controls the trust because it has power that determines the management performance over the trust, and is exposed to variable returns to absorb losses through the guarantees of payment of principal or, payment of principal and fixed rate of return.
[3] The Bank controls these investees because it is exposed to variable returns from its involvement with the investees, and has ability to affect those returns through its power, even though it holds less than a majority of the voting rights of the investees.
[4] The Bank controls these investees because it is exposed to variable returns from its involvement with the investees, and has ability to affect those returns through its power.
[5] Ownerships are based on total holding of the Bank and its subsidiaries.

The condensed financial information of major subsidiaries as of December 31, 2016 and 2015, and for the years ended December 31, 2016 and 2015, is as follows:

(In millions of Korean won)

	2016				
	Assets	**Liabilities**	**Equity**	**Operating revenue**	**Profit for the period**
Kookmin Bank Int'l Ltd.(London)	₩ 501,788	₩ 410,962	₩ 90,826	₩ 13,699	₩ 3,982
Kookmin Bank Hongkong Ltd.	926,001	760,112	165,889	19,105	5,648
Kookmin Bank Cambodia PLC.	162,133	99,510	62,623	6,858	742
Kookmin Bank (China) Ltd.	1,838,326	1,415,062	423,264	57,769	5,282
Personal pension trust and 10 others	4,016,964	3,913,743	103,221	122,195	2,899

(In millions of Korean won)

	2015				
	Assets	**Liabilities**	**Equity**	**Operating revenue**	**Profit(Loss) for the period**
Kookmin Bank Int'l Ltd.(London)	₩ 472,941	₩ 388,623	₩ 84,318	₩ 10,756	₩ 3,484
Kookmin Bank Hongkong Ltd.	684,994	529,847	155,147	14,529	5,127
Kookmin Bank Cambodia PLC.	88,675	63,851	24,824	5,850	2,054
Kookmin Bank (China) Ltd.	1,663,788	1,231,463	432,325	42,269	(8,465)
Personal pension trust and 10 others	3,803,511	3,704,365	99,146	129,956	3,664

Nature of the risks associated with interests in consolidated structured entities

Terms of contractual arrangements that provide financial support to a consolidated structured entity

- The Bank provides the capital commitment of ₩ 258,000 million to KB Wise Star Private Real Estate Feeder Fund 1st, of which ₩ 185,717 million has not been utilized. Based on the investment agreement, the Bank is subject to increase its investment upon the request of the asset management company or the additional agreement among investors.

- The Bank has provided purchase commitment and grant of credit to the structured entities that are considered as subsidiaries. The Bank should purchase unsold commercial paper securities if there is a shortage of the investors for the commercial paper securities issued by the structured entity. If events causing the cessation of the issuance of commercial paper securities occur or if the structured entities become insolvent, the Bank should provide loans to the structured entities under certain conditions.

(In millions of Korean won)	**2016**
Silver Investment 2nd Inc.	₩ 50,000
KDL the 1st L.L.C.	50,000
KBC the 1st L.L.C.	35,000
KBM the 1st L.L.C.	50,000
KH the 4th L.L.C.	25,000
KH the 3rd L.L.C.	100,000
KH the 2nd L.L.C.	40,000
KL the International 1st L.L.C.	50,000
KL the 3rd L.L.C.	30,000
KL the 1st L.L.C.	50,000
KL Food the 1st L.L.C.	50,000
KY the 1st L.L.C.	24,000
KBY the 1st L.L.C.	15,000
KBH the 1st L.L.C.	20,000
KBH the 2nd L.L.C.	30,000
KB INO 1st L.L.C.	50,000
LIIV FOR RENTAL 1st L.L.C.	70,000

- The Bank provides the guarantees of payment of principal or principal and fixed rate of return, in case the operating results of the trusts are less than the guaranteed principal or principal and a fixed rate of return.

Changes in subsidiaries

KL the 1st L.L.C. and 16 other subsidiaries were newly consolidated during the year ended December 31, 2016.

39. Unconsolidated Structured Entity

The nature, purpose and activities of the unconsolidated structured entities and how the structured entities are financed, are as follows:

Nature	Purpose	Activities	Methods of Financing
Asset-backed securitization	Early cash generation through transfer of securitization assets Fees earned as services to SPC, such as providing lines of credit and ABCP purchase commitments	Fulfillment of Asset-backed securitization plan Purchase and collection securitization assets Issuance and repayment of ABS and ABCP	Issuance of ABS and ABCP based on securitization assets
Project Financing	Granting PF loans related to SOC and real property Granting loans to ships/aircrafts SPC	Construction of SOC and real property Building ships/ Construction and purchase of aircrafts	Loan commitments through Credit Line, providing lines of credit and investment agreements
Investment funds	Investment in beneficiary certificates Investment in PEF and partnerships	Management of fund assets Payment of fund fees and allocation of fund profits	Sales of beneficiary certificate instruments Investment of general partners and limited partners

As of December 31, 2016 and 2015, the size of the unconsolidated structured entities and the risks associated with its interests in unconsolidated structured entities are as follows:

(In millions of Korean won)

	2016				
	Asset-backed securitization	**Project Financing**	**Investment funds**	**Others**	**Total**
Total assets of the unconsolidated structured entities	₩ 70,019,012	₩ 21,562,287	₩ 15,125,330	₩ 2,140,135	₩ 108,846,764
Carrying amount on financial statements					
Assets					
Financial assets at fair value through profit or loss	129,742	-	-	-	129,742
Derivative financial assets	110	-	-	-	110
Loans	438,711	2,283,110	-	146,256	2,868,077
Financial investments	6,394,577	8,595	3,654,414	17,046	10,074,632
Investments in associates	-	-	229,561	-	229,561
	₩ 6,963,140	₩ 2,291,705	₩ 3,883,975	₩ 163,302	₩ 13,302,122
Liabilities					
Deposits	₩ 528,035	₩ 703,049	₩ 49,587	₩ 6,857	₩ 1,287,528
	₩ 528,035	₩ 703,049	₩ 49,587	₩ 6,857	₩ 1,287,528
Maximum exposure to loss					
Asset[1]	₩ 6,963,140	₩ 2,291,705	₩ 3,883,975	₩ 163,302	₩ 13,302,122
Purchase and capital commitments	-	-	1,620,871	-	1,620,871
Unused providing lines of credit	2,420,854	-	-	-	2,420,854
Acceptances and guarantees and Loan commitments	290,100	1,475,760	-	-	1,765,860
	₩ 9,674,094	₩ 3,767,465	₩ 5,504,846	₩ 163,302	₩ 19,109,707
Methods of determining the maximum exposure to loss	Providing lines of credit and purchase commitments	Loan commitments / capital commitments / purchase commitments and Acceptances and guarantees	Capital commitments	Loan commitments	

(In millions of Korean won)

	2015				
	Asset-backed securitization	**Project Financing**	**Investment funds**	**Others**	**Total**
Total assets of the unconsolidated structured entities	₩ 51,915,323	₩ 22,279,763	₩ 10,208,708	₩ 5,969,463	₩ 90,373,257
Carrying amount on financial statements					
Assets					
Financial assets at fair value through profit or loss	₩ 218,496	₩ -	₩ -	₩ -	₩ 218,496
Derivative financial assets	373	-	-	-	373
Loans	178,863	2,512,158	-	373,760	3,064,781
Financial investments	9,324,629	7,867	1,413,044	18,303	10,763,843
Investments in associates	-	-	407,319	-	407,319
	₩ 9,722,361	₩ 2,520,025	₩ 1,820,363	₩ 392,063	₩ 14,454,812
Liabilities					
Deposits	₩ 258,554	₩ 728,059	₩ 15,159	₩ 19,743	₩ 1,021,515
	₩ 258,554	₩ 728,059	₩ 15,159	₩ 19,743	₩ 1,021,515
Maximum exposure to loss					
Asset[1]	₩ 9,722,361	₩ 2,520,025	₩ 1,820,363	₩ 392,063	₩ 14,454,812
Purchase and capital commitments	98,700	14,177	1,661,862	-	1,774,739
Unused providing lines of credit	3,449,749	-	-	-	3,449,749
Acceptances and guarantees and Loan commitments	10,832	1,234,150	-	29,801	1,274,783
	₩ 13,281,642	₩ 3,768,352	₩ 3,482,225	₩ 421,864	₩ 20,954,083
Methods of determining the maximum exposure to loss	Providing lines of credit and purchase commitments	Loan commitments / capital commitments / purchase commitments and Acceptances and guarantees	Capital commitments	Loan commitments	

[1] Maximum exposure to loss includes the asset amounts, after deducting loss (provision for assets, impairment losses and others), recognized in the consolidated financial statements of the Group.

40. Finance and Operating Leases

40.1 Finance Lease

The future minimum lease payments as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Net carrying amount of finance lease assets	₩ 24,290	₩ 32,583
Minimum lease payments		
Within 1 year	1,572	1,983
1-5 years	54	226
	₩ 1,626	₩ 2,209
Present value of minimum lease payments		
Within 1 year	1,551	1,950
1-5 years	54	222
	₩ 1,605	₩ 2,172

40.2 Operating Lease

40.2.1 The Group as Operating Lessee

The future minimum lease payments arising from the non-cancellable lease contracts as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Minimum lease payments		
Within 1 year	₩ 116,505	₩ 107,696
1-5 years	133,381	92,729
Over 5 years	34,488	34,679
	₩ 284,374	₩ 235,104
Minimum sublease payments	₩ (1,891)	₩ (1,340)

The lease payments reflected in profit or loss for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Lease payment reflected in profit or loss		
Minimum lease payments	₩ 166,120	₩ 167,053
Sublease payments	(1,002)	(721)
	₩ 165,118	₩ 166,332

40.2.2 The Group as Operating Lessor

The future minimum lease receipts arising from the non-cancellable lease contracts as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Minimum lease receipts		
Within 1 year	₩ 18,383	₩ 9,212
1-5 years	33,031	9,866
	₩ 51,414	₩ 19,078

41. Related Party Transactions

Profit and loss arising from transactions with related parties for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

		2016	2015
Parent			
KB Financial Group Inc.	Fee and commission income	₩ 3,422	₩ 719
	Other non-operating income	765	999
	Interest expense	2,262	2,429
	General and administrative expenses	203	-
Parent's subsidiaries			
KB Asset Management Co., Ltd.	Fee and commission income	889	607
	Other non-operating income	3	-
	Interest expense	820	1,148
	Fee and commission expense	635	835
KB Real Estate Trust Co., Ltd.	Fee and commission income	35	4
	Other non-operating income	39	41
	Interest expense	139	904
	Fee and commission expense	1,195	956
KB Investment Co., Ltd.	Fee and commission income	11	-
	Interest expense	480	590
KB Kookmin Card Co., Ltd.	Interest income	3,307	3,010
	Fee and commission income	243,282	245,202
	Gains on financial assets/ liabilities at fair value through profit or loss	3,376	-
	Reversal of credit losses	-	1
	Other non-operating income	1,212	1,126
	Interest expense	3,010	5,690
	Fee and commission expense	176	141
	Provision for credit losses	70	-
	General and administrative expenses	163	-
KB Credit Information Co., Ltd.	Fee and commission income	33	187
	Other non-operating income	298	324
	Interest expense	129	197

	Fee and commission expense	16,444	18,442
KB Data System Co., Ltd.	Fee and commission income	34	1
	Other non-operating income	74	47
	Interest expense	165	267
	Other non-operating expense	33	-
	General and administrative expenses	16,046	14,160
KB Life Insurance Co., Ltd.	Fee and commission income	12,380	19,591
	Gains on financial assets/ liabilities at fair value through profit or loss	2,018	-
	Other non-operating income	466	56
	Interest expense	965	1,151
	Losses on financial assets/ liabilities at fair value through profit or loss	486	-
	General and administrative expenses	1,942	-
KB Savings Bank Co., Ltd.	Fee and commission income	246	81
	Other non-operating income	39	15
KB Capital Co., Ltd.	Fee and commission income	579	243
	Other non-operating income	115	89
	Interest expense	4	2
KB Securities Co., Ltd. [2]	Interest income	1,706	159
	Fee and commission income	6,535	3,694
	Gains on financial assets/ liabilities at fair value through profit or loss	7,189	-
	Other operating income	4	-
	Reversal of credit losses	38	2
	Other non-operating income	1,645	928
	Interest expense	2,398	2,282
	Fee and commission expense	428	635
	Losses on financial assets/ liabilities at fair value through profit or loss	10,250	-
	Other operating expense	-	10
Hanbando BTL Private Special Asset Fund	Fee and commission income	179	203
KB Senior Loan Private Fund No.1	Fee and commission income	32	23
KB Mezzanine Private Securities Fund[1]	Fee and commission income	52	203
Associates			
Korea Credit Bureau Co., Ltd.	Fee and commission income	3	3
	Interest expense	92	73
Incheon Bridge Co., Ltd.	Interest income	14,534	12,843
	Reversal of credit losses	-	2
	Interest expense	369	436
	Provision for credit losses	30	-
MJT&I Corp.	Interest income	2	-
Doosung Metal Co., Ltd.	Interest income	1	-
Jaeyang Industry Co., Ltd.	Reversal of credit losses	37	-
KB12-1 Venture Investment Partnership	Interest expense	35	107

KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	Interest expense	10	-
KB High-tech Company Investment Fund	Interest expense	76	-
Aju Good Technology Venture Fund	Interest expense	4	-
KB Star Office Private Real Estate Investment Trust No.1	Interest expense	87	92
UAMCO., Ltd.[1]	Fee and commission income	5	14
	Interest expense	1	8
United PF 1st Recovery Private Equity Fund[1]	Interest expense	1	49
Associate of parent			
KB Insurance Co., Ltd.	Interest income	63	50
	Fee and commission income	12,019	2,456
	Gains on financial assets/ liabilities at fair value through profit or loss	4,822	2,761
	Reversal of credit losses	30	-
	Other non-operating income	110	10
	Interest expense	1,057	164
	Losses on financial assets/ liabilities at fair value through profit or loss	3,384	164
	General and administrative expenses	11,154	2,633
Associates of parent's subsidiaries			
KB No.3 Special Purpose Acquisition Company[1]	Interest expense	-	5
KB No.4 Special Purpose Acquisition Company[1]	Interest expense	-	25
KB No.5 Special Purpose Acquisition Company[1]	Interest expense	19	44
KB No.6 Special Purpose Acquisition Company[1]	Interest expense	14	66
KB No.7 Special Purpose Acquisition Company[1]	Interest expense	18	38
KB No.8 Special Purpose Acquisition Company	Interest expense	35	21
KB No.9 Special Purpose Acquisition Company	Interest expense	40	7
KB No.10 Special Purpose Acquisition Company	Interest expense	8	-
SY Auto Capital Co., Ltd.	Interest income	193	-
	Interest expense	19	24
	Provision for credit losses	61	-
RAND Bio Science Co., Ltd.	Interest expense	14	-
KB IC 3rd Private Equity Fund	Interest expense	12	23
SAWNICS Inc. [1]	Interest expense	-	1
E-clear International Co., Ltd.[1]	Interest income	-	18
Other			
Retirement pension	Fee and commission income	717	611
	Interest expense	749	955

[1] Not considered to be the Group's related party as of December 31, 2016.

[2] During the year, Hyundai Securities Co., Ltd. and KB Investment and Securities Co., Ltd. merged. Therefore the profit and loss of Hyundai Securities Co., Ltd after Hyundai Securities Co.,Ltd. became the related party of the Group was included.

Details of receivables and payables, and related allowances for loan losses arising from the related party transactions as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)		2016	2015
Parent			
KB Financial Group Inc.	Other assets	₩ 3,313	₩ 41,442
	Deposits	57,967	324,947
	Other liabilities	426,522	54,619
Parent's subsidiaries			
KB Asset Management Co., Ltd.	Other assets	226	169
	Deposits	73,279	74,062
	Other liabilities	410	438
KB Real Estate Trust Co., Ltd.	Deposits	21,211	24,025
	Other liabilities	353	405
KB Investment Co., Ltd.	Deposits	23,954	37,125
	Other liabilities	55	117
KB Kookmin Card Co., Ltd.	Other assets	25,573	26,891
	Derivative assets[2]	3,376	-
	Deposits	160,002	385,060
	Provisions	485	415
	Other liabilities	50,231	64,136
KB Credit Information Co., Ltd.	Other assets	6	183
	Deposits	3,465	5,864
	Other liabilities	6,439	6,226
KB Data System Co., Ltd.	Other assets	2,312	893
	Deposits	10,926	18,028
	Other liabilities	2,366	1,242
KB Life Insurance Co., Ltd.	Other assets	976	1,218
	Derivative assets[3]	2,018	-
	Deposits	700	255
	Debts	25,000	25,000
	Other liabilities	3,136	103
KB Savings Bank Co., Ltd.	Other assets	77	17
	Other liabilities	378	371
KB Capital Co., Ltd.	Other assets	17	11
	Deposits	9,075	741
KB Securities Co., Ltd.	Cash and due from financial institutions	284	282
	Gross amounts of loans	-	8,438
	Allowances	-	3
	Other assets	395	402
	Derivative assets[4]	2,739	-
	Deposits	116,893	117,257
	Debentures	300	-
	Provisions	234	13
	Other liabilities	191,719	5,134
	Derivative liabilities[4]	2,018	-
Hanbando BTL Private Special Asset Fund	Other assets	44	46
KB Senior Loan Private Fund No.1	Other assets	8	11
KB Mezzanine Private Securities Fund[1]	Other assets	-	27

Associates			
JSC Bank CenterCredit	Cash and due from financial institutions	8	1,225
Korea Credit Bureau Co., Ltd.	Deposits	26,827	19,435
	Other liabilities	75	22
Incheon Bridge Co., Ltd.	Gross amounts of loans	209,094	231,653
	Allowances	330	300
	Other assets	821	970
	Deposits	38,556	35,916
	Other liabilities	166	153
Terra Corporation	Deposits	-	1
Jungdong Steel Co., Ltd.	Deposits	3	-
Doosung Metal Co., Ltd.	Deposits	-	1
EJADE Co., Ltd.	Deposits	2	12
DPAPS Co., Ltd.	Deposits	-	3
Jaeyang Industry Co., Ltd.	Gross amounts of loans	303	-
	Allowances	6	-
	Other assets	7	-
KB12-1 Venture Investment Partnership	Deposits	4,562	5,753
	Other liabilities	2	4
KB High-tech Company	Deposits	4,643	-
Investment Fund	Other liabilities	4	-
Aju Good Technology Venture Fund	Deposits	1,201	-
	Other liabilities	1	-
KB Star office Private	Deposits	6,682	7,446
real estate Investment Trust No.1	Other liabilities	50	56
UAMCO., Ltd [1]	Deposits	-	815
Associates of Parent			
KB Insurance Co., Ltd.	Other assets	8,372	6,503
	Derivative assets[5]	3,941	2,059
	Deposits	9,883	8,415
	Debts	20,000	20,000
	Provisions	-	30
	Other liabilities	1,240	789
	Derivative liabilities[5]	2,811	219
Associates of Parent's subsidiaries			
KB No.5 Special Purpose	Deposits	-	2,323
Acquisition Company[1]	Other liabilities	-	39
KB No.6 Special Purpose	Deposits	-	4,195
Acquisition Company [1]	Other liabilities	-	68
KB No.7 Special Purpose	Deposits	-	2,336
Acquisition Company[1]	Other liabilities	-	37
KB No.8 Special Purpose	Deposits	2,342	2,373
Acquisition Company	Other liabilities	3	21
KB No.9 Special Purpose	Deposits	2,399	2,973
Acquisition Company	Other liabilities	6	7
KB No.10 Special Purpose	Deposits	1,754	-
Acquisition Company	Other liabilities	8	-
SY Auto Capital Co., Ltd.	Gross amounts of loans	10,000	-
	Allowances	32	-
	Other assets	6	-
	Deposits	3,997	1,845
	Provisions	29	-
	Other liabilities	6	-
RAND Bio Science Co., Ltd.	Deposits	2,356	-
	Other liabilities	12	-

Inno Lending Co.,Ltd.	Deposits	1,902	-
isMedia Co.,Ltd.	Provisions	4	-
KB IC 3rd Private Equity	Deposits	700	850
Fund	Other liabilities	1	9
SAWNICS Inc. [1]	Deposits	-	319
Key management	Gross amounts of loans	1,938	2,280
	Other assets	2	3
	Deposits	8,043	4,114
	Other liabilities	138	29
Others			
Retirement pension	Other assets	304	264
	Deposits	1,464	51,920
	Other liabilities	16,497	37,969

[1] Not considered to be the Group's related party as at December 31, 2016.
[2] Notional amount related to derivative assets and liabilities is ₩ 90,425 million as of December 31, 2016.
[3] Notional amount related to derivative assets and liabilities is ₩ 25,076 million as of December 31, 2016.
[4] Notional amount related to derivative assets and liabilities is ₩ 226,678 million as of December 31, 2016.
[5] Notional amount related to derivative assets and liabilities is ₩ 251,833 million as of December 31, 2016.

In accordance with Korean IFRS 1024, the Group includes the Parent, the Parent's subsidiaries, associates, associates of the Parent's subsidiaries, key management (including family members), and post-employment benefit plans of the Group and entities regarded as its related parties in the scope of its related parties. Additionally, the Group discloses balances (receivables and payables) and other amounts arising from the related party transactions in the notes to the consolidated financial statements. Refer to Note 13 for details on investments in associates.

Key management includes the directors of the Parent company and the executive directors (vice presidents and above) of the Bank and companies where the directors and /or their close family members have control or joint control.

Significant loan transactions with related parties for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016[1]				
	Beginning	**Loans**	**Repayments**	**Others**	**Ending**
Parent's subsidiaries					
KB Kookmin Card Co., Ltd.	₩ -	₩ 1,910	₩ 1,910	₩ -	₩ -
KB Securities Co., Ltd.	8,438	-	8,438	-	-
Associate					
Incheon Bridge Co., Ltd.	231,653	4,000	26,559	-	209,094
Associate of Parent's subsidiary					
SY Auto Capital Co., Ltd.	-	10,000	-	-	10,000

(In millions of Korean won)	2015[1]				
	Beginning	**Loans**	**Repayments**	**Others**	**Ending**
Parent's subsidiaries					
KB Kookmin Card Co., Ltd.	₩ -	₩ 4,005	₩ 4,005	₩ -	₩ -
KB Securities Co., Ltd.	34,997	14,094	40,653	-	8,438
Associate					
Incheon Bridge Co., Ltd.	247,870	8,000	24,217	-	231,653

[1] Transactions and balances arising from operating activities between related parties, such as settlements, are excluded.

The settlement transactions and deposits arising from operating activities with related parties are excluded and there are no other borrowing transactions.

Unused commitments provided to related parties as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)		**2016**	**2015**
Parent's subsidiaries			
KB Investment Co., Ltd.	Purchase of securities	₩ 200	₩ 600
	Loss sharing agreements	1,000	1,000
KB Kookmin Card Co., Ltd.	Loan commitment in Korean won	520,000	520,000
	Other commitments in Korean won	1,000,000	1,000,000
KB Securities Co., Ltd.	Loan commitment in Korean won	192,500	39,062
Hanbando BTL Private Special Asset Fund	Purchase of securities	15,931	15,931
Hope Sharing BTL Private Special Asset Fund	Purchase of securities	48,045	48,045
KB Mezzanine Private Security Investment Trust No.2	Purchase of securities	30,589	51,048
KB Senior Loan Private Fund No.1	Purchase of securities	35,958	64,964
KB Mezzanine Private Securities Fund[1]	Purchase of securities	-	18,359
Associates			
JSC Bank CenterCredit	Loan commitment in foreign currencies	-	117,200
Balhae Infrastructure Fund	Purchase of securities	13,371	18,098

Incheon Bridge Co., Ltd.	Loan commitment in Korean won	50,000	38,963
KoFC KBIC Frontier Champ 2010-5 (PEF)	Purchase of securities	1,290	1,290
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	Purchase of securities	10,040	13,040
Future Planning KB Start-up Creation Fund	Purchase of securities	4,000	8,000
KB High-tech Company Investment Fund	Purchase of securities	10,000	-
Aju Good Technology Venture Fund	Purchase of securities	18,000	-
UAMCO., Ltd. [1]	Purchase of securities	-	89,950
United PF 1st Recovery Private Equity Fund [1]	Purchase of securities	-	49,383
Associates of Parent			
KB Insurance Co., Ltd.	Loan commitment in Korean won	-	20,000
Associates of Parent's subsidiaries			
SY Auto Capital Co., Ltd.	Loan commitment in Korean won	10,000	-
isMedia Co.,Ltd.	Loan commitment in Korean won	1,260	-
Key management	Loan commitment in Korean won	437	223

[1] Not considered to be the Group's related party as of December 31, 2016.

Unused commitments received from related parties as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)		**2016**	**2015**
Parent's subsidiaries			
KB Investment Co., Ltd.	Loss sharing agreements	₩ 10,967	₩ 8,539
KB Real Estate Trust Co., Ltd.	Purchase of securities	4,319	4,319
KB Life Insurance Co., Ltd.	Purchase of securities	21,595	21,595
KB Securities Co., Ltd.	Purchase of securities	4,319	4,319
KB Kookmin Card Co., Ltd.	Loan commitment in Korean won	77,967	80,316

Compensation to key management for the years ended December 31, 2016 and 2015, consists of:

(In millions of Korean won)	2016			
	Short-term employee benefits	**Post-employment benefits**	**Share-based payments**	**Total**
Registered directors (executive)	₩ 909	₩ 40	₩ 1,191	₩ 2,140
Registered directors (non-executive)	303	-	-	303
Non-registered directors	4,009	156	4,724	8,889
	₩ 5,221	₩ 196	₩ 5,915	₩ 11,332

(In millions of Korean won)	2015			
	Short-term employee benefits	**Post-employment benefits**	**Share-based payments**	**Total**
Registered directors (executive)	₩ 987	₩ 59	₩ 632	₩ 1,678
Registered directors (non-executive)	304	-	-	304
Non-registered directors	3,943	57	2,814	6,814
	₩ 5,234	₩ 116	₩ 3,446	₩ 8,796

Significant operating transactions occurring between the Group and related parties include the establishment of deposit accounts, issuance of general purpose loans, loans on business transactions and trade receivables, and overdraft credit accounts arising from net settlement agreement between the Bank and KB Kookmin Card Co., Ltd.

Collateral offered to related parties as of December 31, 2016 and 2015, is as follows:

(In millions of Korean won)		2016		2015	
	Assets pledged	**Carrying amount**	**Collateralized amount**	**Carrying amount**	**Collateralized amount**
Parent's subsidiaries					
KB Securities Co., Ltd.	Securities	₩ 74,964	₩ 75,000	₩ 54,042	₩ 54,000
KB Life Insurance Co., Ltd.	Securities	26,197	25,000	16,263	15,000
	Building / Land	217,369	32,500	426,885	45,500
Parent's associates					
KB Insurance Co., Ltd.	Securities	50,000	50,000	-	-
	Building / Land	217,369	26,000	216,284	26,000

Collateral received from related parties as of December 31, 2016 and 2015, is as follows:

(In millions of Korean won)		2016	2015
Parent's subsidiaries			
KB Securities Co., Ltd.	Time deposits/ Beneficiary right certificate	₩ 206,250	₩ 52,000
	Securities	20,000	–
KB Life Insurance Co., Ltd.	Securities	10,000	–
KB Kookmin Card Co., Ltd.	Time deposits	22,000	22,000
Associate			
Incheon Bridge Co., Ltd.	Fund management account for Standby loan commitment	65,000	65,000
Parent's associates			
KB Insurance Co., Ltd.	Securities	50,000	-
Key management	Time deposits and others	251	249
	Real estate	2,759	2,662

As of December 31, 2016, Incheon Bridge Co., Ltd, a related party, provides fund management account, civil engineering completed risk insurance, shares and management rights as unsubordinated collateral in respect to collateralized amount for ₩ 816,400 million to a financial syndicate consisting of the Bank and four other institutions, and as subordinated collateral in respect to collateralized amount for ₩ 201,110 million to subordinated debt holders consisting of the Bank and two other institutions.

The Bank and KB Kookmin Card Co., Ltd. are jointly and severally liable for the payables of the Bank before the spin-off date.

42. Approval of Issuance of the Financial Statements

The issuance of the Group's consolidated financial statements as of and for the year ended December 31, 2016, was approved by the Board of Directors on February 8, 2017.

Independent Auditor's Report

(English Translation of a Report Originally Issued in the Korean)

To the Shareholder and Board of Directors of
Kookmin Bank

We have audited the accompanying consolidated financial statements of Kookmin Bank and its subsidiaries (collectively the "Group"), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS") and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2015 and 2014, and its financial performance and cash flows for the years then ended in accordance with Korean IFRS.

Other Matter

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

/s/ Samil PricewaterhouseCoopers
Seoul, Korea
March 9, 2016

The report is effective as of March 9, 2016, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Kookmin Bank and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2015 and 2014

(In millions of Korean won)	Notes		2015		2014
Assets					
Cash and due from financial institutions	4,6,7,36	₩	14,562,990	₩	13,973,510
Financial assets at fair value through profit or loss	4,6,8,12		6,487,617		7,520,471
Derivative financial assets	4,6,9		2,186,010		1,910,217
Loans	4,6,8,10,11		222,738,064		211,525,560
Financial investments	4,6,8,12		32,911,986		29,258,527
Investments in associates	13		670,139		667,332
Property and equipment	14		2,909,372		2,888,194
Investment property	14		413,179		409,266
Intangible assets	15		181,599		206,895
Current income tax assets	32		18,325		305,831
Deferred income tax assets	16,32		8,321		5,314
Assets held for sale	18		33,795		54,034
Other assets	4,6,17		7,156,510		6,728,513
Total assets		₩	290,277,907	₩	275,453,664
Liabilities					
Financial liabilities at fair value through profit or loss	4,6	₩	69,465	₩	51,650
Derivative financial liabilities	4,6,9		2,138,723		1,759,099
Deposits	4,6,19		224,333,507		211,611,432
Debts	4,6,20		14,291,815		14,297,460
Debentures	4,6,21		15,949,134		15,250,464
Provisions	22		450,398		483,375
Net defined benefit liabilities	23		55,669		57,493
Current income tax liabilities	32		7,121		7,585
Deferred income tax liabilities	16,32		165,273		110,358
Other liabilities	4,6,24,30		10,069,591		9,884,275
Total liabilities			267,530,696		253,513,191
Equity	25				
Capital stock			2,021,896		2,021,896
Capital surplus			5,219,704		5,219,704
Accumulated other comprehensive income	34		500,807		570,811
Retained earnings	33		15,004,804		14,128,062
(Provision of regulatory reserve for credit losses					
December 31, 2015 : ₩1,867,761 million					
December 31, 2014 : ₩1,690,979 million)					
(Amounts estimated to be appropriated(reversed)					
December 31, 2015 : ₩(32,646) million					
December 31, 2014 : ₩176,782 million)					
Equity attributable to shareholders of the parent company			22,747,211		21,940,473
Non-controlling interest equity			-		-
Total equity			22,747,211		21,940,473
Total liabilities and equity		₩	290,277,907	₩	275,453,664

The accompanying notes are an integral part of these consolidated financial statements.

Kookmin Bank and Subsidiaries
Consolidated Statements of Comprehensive Income
Years ended December 31, 2015 and 2014

(In millions of Korean won)	Notes	2015	2014
Interest income		₩ 8,388,382	₩ 9,702,627
Interest expense		(3,676,635)	(4,731,181)
Net interest income	26	4,711,747	4,971,446
Fee and commission income		1,372,054	1,271,338
Fee and commission expense		(215,681)	(193,293)
Net fee and commission income	27	1,156,373	1,078,045
Net gains on financial assets/liabilities at fair value through profit or loss	28	287,028	356,291
Net other operating expenses	29	(421,726)	(768,551)
General and administrative expenses	14,15,23,30	(3,811,821)	(3,372,858)
Operating profit before provision for credit losses		1,921,601	2,264,373
Provision for credit losses	11,17,22	(741,620)	(887,654)
Operating profit		1,179,981	1,376,719
Share of profit of associates	13	7,812	17,555
Net other non-operating income(expenses)	31	193,436	(33,999)
Net non-operating profit(loss)		201,248	(16,444)
Profit before income tax expense		1,381,229	1,360,275
Income tax expense	32	(273,991)	(331,234)
Profit for the year		1,107,238	1,029,041
(Adjusted profit after provision of regulatory reserve for credit losses	25		
2015 : ₩1,139,884 million			
2014 : ₩852,259 million)			
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit liabilities		(14,494)	(83,603)
Items that may be reclassified subsequently to profit or loss:			
Currency translation adjustments		45,142	17,281
Valuation gains(losses) on financial investments		(77,712)	222,309
Share of other comprehensive income(loss) of associates		2,536	(32,795)
Loss on hedging instruments of net investments in foreign operations		(25,476)	-
Other comprehensive income for the year, net of tax	34	(70,004)	123,192
Total comprehensive income for the year		₩ 1,037,234	₩ 1,152,233
Profit attributable to:			
Shareholders of the parent company		1,107,238	1,029,041
Non-controlling interests		-	-
		₩ 1,107,238	₩ 1,029,041
Total comprehensive income for the year attributable to:			
Shareholders of the parent company		1,037,234	1,152,233
Non-controlling interests		-	-
		₩ 1,037,234	₩ 1,152,233

The accompanying notes are an integral part of these consolidated financial statements.

Kookmin Bank and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2015 and 2014

(In millions of Korean won)	Capital Stock	Capital Surplus	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Non-controlling interests	Total Equity
Balance at January 1, 2014	₩ 2,021,896	₩ 5,219,704	₩ 447,619	₩ 13,257,538	₩ -	₩ 20,946,757
Comprehensive income for the year						
Profit for the year	-	-	-	1,029,041	-	1,029,041
Remeasurements of net defined benefit liabilities	-	-	(83,603)	-	-	(83,603)
Currency translation adjustments	-	-	17,281	-	-	17,281
Gains on valuation of financial investments	-	-	222,309	-	-	222,309
Losses on valuation of investments accounted for using the equity method	-	-	(32,795)	-	-	(32,795)
Total comprehensive income for the year	-	-	123,192	1,029,041	-	1,152,233
Transactions with shareholders						
Dividends	-	-	-	(158,517)	-	(158,517)
Total transactions with shareholders	-	-	-	(158,517)	-	(158,517)
Balance at December 31, 2014	₩ 2,021,896	₩ 5,219,704	₩ 570,811	₩ 14,128,062	₩ -	₩ 21,940,473
Balance at January 1, 2015	₩ 2,021,896	₩ 5,219,704	₩ 570,811	₩ 14,128,062	₩ -	₩ 21,940,473
Comprehensive income for the year						
Profit for the year	-	-	-	1,107,238	-	1,107,238
Remeasurements of net defined benefit liabilities	-	-	(14,494)	-	-	(14,494)
Currency translation adjustments	-	-	45,142	-	-	45,142
Losses on valuation of financial investments	-	-	(77,712)	-	-	(77,712)
Gains on valuation of investments accounted for using the equity method	-	-	2,536	-	-	2,536
Losses on hedging instruments of net investments in foreign operations	-	-	(25,476)	-	-	(25,476)
Total comprehensive income for the year	-	-	(70,004)	1,107,238	-	1,037,234
Transactions with shareholders						
Dividends	-	-	-	(230,496)	-	(230,496)
Total transactions with shareholders	-	-	-	(230,496)	-	(230,496)
Balance at December 31, 2015	₩ 2,021,896	₩ 5,219,704	₩ 500,807	₩ 15,004,804	₩ -	₩ 22,747,211

The accompanying notes are an integral part of these consolidated financial statements.

Kookmin Bank and Subsidiaries
Consolidated Statements of Cash Flows
Years ended December 31, 2015 and 2014

(In millions of Korean won)	Notes		2015		2014
Cash flows from operating activities					
Profit for the year		₩	1,107,238	₩	1,029,041
Adjustment for non-cash items					
Net gains on financial assets/liabilities at fair value through profit or loss			(24,656)		(83,607)
Losses on derivative financial investments for hedging purposes			39,381		28,269
Adjustment of fair value of derivative financial instruments			1,771		(2,040)
Provision for credit losses			741,620		887,654
Net losses(gains) on financial investments			(179,901)		126,592
Share of profit of associates			(7,812)		(17,555)
Depreciation and amortization expense			204,467		211,599
Other net losses on property and equipment/intangible assets			7,225		15,460
Share-based payment			11,915		7,234
Post-employment benefits			164,173		148,163
Net interest income			430,411		279,695
Losses on foreign currency translation			250,568		116,042
Other expense			54,409		30,011
			1,693,571		1,747,517
Changes in operating assets and liabilities					
Financial assets at fair value through profit or loss			1,034,252		(426,405)
Derivative financial instrument			91,296		35,172
Loans			(12,192,923)		(9,452,956)
Deferred income tax assets			(2,553)		(4,871)
Current income tax assets			287,506		23,612
Other assets			(612,548)		123,395
Financial liabilities at fair value through profit or loss			17,742		11,441
Deposits			12,605,816		10,645,363
Deferred income tax liabilities			83,471		(67,016)
Other liabilities			(779,103)		(970,235)
			532,956		(82,500)
Net cash generated from operating activities			3,333,765		2,694,058
Cash flows from investing activities					
Disposal of financial investments			19,594,218		18,538,678
Acquisition of financial investments			(23,176,836)		(17,509,199)
Decrease in investments in associates			36,318		74,047
Acquisition of investments in associates			(27,999)		(16,216)
Disposal of property and equipment			1,764		194
Acquisition of property and equipment			(172,590)		(158,443)
Acquisition of investment property			(4,290)		(211,995)
Disposal of intangible assets			3,525		2,577
Acquisition of intangible assets			(26,203)		(18,078)
Others			97,950		(1,301,352)
Net cash used in investing activities			(3,674,143)		(599,787)
Cash flows from financing activities					
Net cash flows from derivative financial instrument for hedging purposes			(29,326)		(201,593)
Net increase (decrease) in debts			(177,914)		674,205
Increase in debentures			5,383,612		6,575,862
Decrease in debentures			(4,905,441)		(7,673,573)
Payment of dividends			(230,496)		(158,517)
Net increase in other payables from trust accounts			367,493		124,903
Others			4,338		(948,359)
Net cash provided by(used in) financing activities			412,266		(1,607,072)
Exchange gains on cash and cash equivalents			65,558		12,221
Net increase in cash and cash equivalents			137,446		499,420
Cash and cash equivalents at the beginning of the year	36		6,332,060		5,832,640
Cash and cash equivalents at the end of year	36	₩	6,469,506	₩	6,332,060

The accompanying notes are an integral part of these consolidated financial statements.

1. The Bank

Kookmin Bank (the "Bank") was incorporated in 1963 under the Citizens National Bank Act to provide banking services to the general public and to small and medium-sized enterprises. Pursuant to the Repeal Act of the Citizens National Bank Act, effective January 5, 1995, the Bank's status changed to a financial institution which operates under the Banking Act and Commercial Act.

The Bank merged with Korea Long Term Credit Bank on December 31, 1998, and with its subsidiaries, Daegu, Busan, Jeonnam Kookmin Mutual Savings & Finance Co., Ltd., on August 22, 1999. Pursuant to the directive from the Financial Services Commission related to the Structural Improvement of the Financial Industry Act, the Bank acquired certain assets, including performing loans, and assumed most of the liabilities of Daedong Bank on June 29, 1998. Also, the Bank completed the merger with Housing and Commercial Bank ("H&CB") on October 31, 2001, and merged with Kookmin Credit Card Co., Ltd., a majority-owned subsidiary, on September 30, 2003. Meanwhile, the Bank spun off its credit card business segment on February 28, 2011, and KB Kookmin Card Co., Ltd. became a subsidiary of KB Financial Group Inc.

The Bank listed its shares on the Stock Market Division of the Korea Exchange ("KRX," formerly Korea Stock Exchange) in September 1994. As a result of the merger with H&CB, the shareholders of the former Kookmin Bank and H&CB received new common shares of the Bank which were relisted on the KRX on November 9, 2001. In addition, H&CB listed its American Depositary Shares ("ADS") on the New York Stock Exchange ("NYSE") on October 3, 2000, prior to the merger. Following the merger with H&CB, the Bank listed its ADS on the NYSE on November 1, 2001. The Bank became a wholly owned subsidiary of KB Financial Group Inc. through a comprehensive stock transfer on September 29, 2008. Subsequently, the Bank's shares and its ADS, each listed on the KRX and the NYSE, were delisted on October 10, 2008 and September 26, 2008, respectively. As of December 31, 2015, the Bank's paid-in capital is ₩2,021,896 million.

The Bank engages in the banking business in accordance with the Banking Act, trust business in accordance with the Financial Investment Services and Capital Markets Act, and other relevant businesses. As of December 31, 2015, the Bank operates 1,138 domestic branches and offices, and five overseas branches (excluding four subsidiaries and three offices).

2. Basis of Preparation

2.1 Application of Korean IFRS

The consolidated financial statements of the Bank and its subsidiaries (collectively the “Group”) have been prepared in accordance with Korean IFRS. These are the standards and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with Korean IFRS. The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.4.

The Group newly applied the following new and amended standards and interpretations for the annual period beginning on January 1, 2015, and these applications do not have a material impact on the consolidated financial statements.

- Amendment to Korean IFRS 1019, *Employment Benefits*
- Annual improvements to Korean IFRS 2010-2012 Cycle
- Annual improvements to Korean IFRS 2011-2013 Cycle

Amendments to standards issued but not effective for the financial year beginning January 1, 2015, and not early adopted are enumerated below. The Group expects that these standards and amendments would not have a material impact on its consolidated financial statements.

- Amendment to Korean IFRS 1001, *Presentation of Financial Statements*
- Korean IFRS 1016, *Property, plant and equipment,* and Korean IFRS 1041, *Agriculture and fishing: Productive plants*
- Korean IFRS 1016, *Property, plant and equipment,* and Korean IFRS 1038, *Intangible assets: Amortization based on revenue*
- Korean IFRS 1110, *Consolidated Financial Statements,* and Korean IFRS 1028, *Investments in Associates and Joint Arrangements*
- Korean IFRS 1111, *Joint Arrangements*
- Annual Improvements to Korean IFRS 2012-2014 *Cycle*

Also, new standards and interpretations issued but not effective for the financial year beginning January 1, 2015, and not early adopted are as follows:

- Korean IFRS 1109, *Financial Instruments*

This new standard issued in December 2015 regarding financial instruments replaces Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*.

Korean IFRS 1109, *Financial Instruments*, requires financial assets to be classified and measured on the basis of the holder's business model and the instrument's contractual cash flow characteristics. The standard requires a financial instrument to be classified and measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss, and provides guidance on accounting for related gains and losses. The impairment model is changed into an expected credit loss model, and changes in those expected credit losses are recognized in profit or loss. This amendment has been partially reflected, which is consistent with the risk management of companies for hedge accounting. The new standard is effective for the financial year initially beginning on or after January 1, 2018, but early adoption is allowed. Early adoption of only the requirements related to financial liabilities designated at fair value through profit or loss is also permitted. The Group is in the process of evaluating the effects resulting from the adoption of the new standard.

- Korean IFRS 1115*, Revenue from Contracts with Customers*

This new standard for the recognition of revenue issued in December 2015 will replace Korean IFRS1018, *Revenue*, Korean IFRS 1011, *Construction Contracts*, and related Interpretations. Korean IFRS 1115, *Revenue from Contracts with Customers*, will replace the risk-and-reward model under the current standards and is based on the principle that revenue is recognized when control of goods or services transfer to the customer by applying the five-step process. Key changes to current practices include guidance on separate recognition of distinct goods or services in any bundled arrangement, constraint on recognizing variable consideration, criteria on recognizing revenue over time, and increased disclosures. The new standard is effective for annual reporting beginning on or after January 1, 2018, but early application is permitted. The Group is in the process of evaluating the effects resulting from the adoption of the new Standard.

2.2 Measurement Basis

The consolidated financial statements have been prepared under the historical cost convention unless otherwise specified.

2.3 Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Korean won, which is the parent company's functional and presentation currency. Refer to Notes 3.2.1 and 3.2.2.

2.4 Significant Estimates

The preparation of consolidated financial statements requires the application of accounting policies, certain critical accounting estimates and assumptions that may have a significant impact on the assets (liabilities) and incomes (expenses). Management's estimates of outcomes may differ from actual outcomes if management's estimates and assumptions based on management's best judgment at the reporting date are different from the actual environment. Estimates and assumptions are continually evaluated and any change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only. Alternatively if the change in accounting estimate affects both the period of change and future periods, that change is recognized in the profit or loss of all those periods.

Uncertainty in estimates and assumptions with significant risk that may result in material adjustment to the consolidated financial statements are as follows:

2.4.1 Income taxes

The Group is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain.

If certain portion of the taxable income is not used for investments, increase in wages, or dividends in accordance with the *Tax System For Recirculation of Corporate Income*, the Group is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new system. As the Group's income tax is dependent on the investments, increase in wages and dividends, there exists uncertainty with regard to measuring the final tax effects.

2.4.2 Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Refer to Note 6 for details on valuation techniques and inputs used to determine the fair value of financial instruments.

2.4.3 Provisions for credit losses (allowances for loan losses, provisions for acceptances and guarantees, and unused loan commitments)

The Group determines and recognizes allowances for losses on loans through impairment testing and recognizes provisions for guarantees, and unused loan commitments. The accuracy of provisions for credit losses is determined by the methodology and assumptions used for estimating expected cash flows of the borrower for individually assessed allowances of loans, collectively assessed allowances for groups of loans, guarantees and unused loan commitments.

2.4.4 Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions (Note 23).

2.4.5 Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations (Note 15).

3. Significant Accounting Policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

3.1 Consolidation

3.1.1 Subsidiaries

Subsidiaries are companies that are controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence and effects of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date when control is transferred to the Group and de-consolidated from the date when control is lost.

If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to make the subsidiary’s accounting policies conform to those of the Group when the subsidiary’s financial statements are used by the Group in preparing the consolidated financial statements.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests, if any. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions; that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

3.1.2 Associates

Associates are entities over which the Group has significant influence in the financial and operating policy decisions. If the Group holds 20% or more of the voting power of the investee, it is presumed that the Group has significant influence.

Under the equity method, investments in associates are initially recognized at cost and the carrying amount is increased or decreased to recognize the Group’s share of the profit or loss of the investee and changes in the investee’s equity after the date of acquisition. The Group’s share of the profit or loss of the investee is recognized in the Group’s profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Profit and loss resulting from ‘upstream’ and ‘downstream’ transactions between the Group and associates are eliminated to the extent at the Group’s interest in associates. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

If associates use accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to make the associate’s accounting policies conform to those of the Group when the associate’s financial statements are used by the Group in applying equity method.

After the carrying amount of the investment is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

The Group determines at each reporting date whether there is any objective evidence that the investments in the associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates and its carrying value and recognizes the amount as ‘share of profit or loss of associates’ in the statement of comprehensive income.

3.1.3 Structured entity

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. When the Group decides whether it has power to the structured entities in which the Group has interests, it considers factors such as the purpose, the form, the practical ability to direct the relevant activities of a structured entity, the nature of its relationship with a structured entity and the amount of exposure to variable returns.

3.1.4 Trusts and funds

The Group provides management services for trust assets, collective investment and other funds. These trusts and funds are not consolidated in the Group's consolidated financial statements, except for trusts and funds over which the Group has control.

3.1.5 Intra-group transactions
All intra-group balances and transactions, and any unrealized gains arising on intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

3.2 Foreign Currency

3.2.1 Foreign currency transactions and balances

A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. At the end of each reporting period, foreign currency monetary items are translated using the closing rate which is the spot exchange rate at the end of the reporting period. Non-monetary items that are measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined and non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous consolidated financial statements are recognized in profit or loss in the period in which they arise, except for exchange differences arising on net investments in a foreign operation and financial liability designated as a hedge of the net investment. When gains or losses on a non-monetary item are recognized in other comprehensive income, any exchange component of those gains or losses are also recognized in other comprehensive income. Conversely, when gains or losses on a non-monetary item are recognized in profit or loss, any exchange component of those gains or losses are also recognized in profit or loss.

3.2.2 Foreign operations

The financial performance and financial position of all foreign operations, whose functional currencies differ from the Group's presentation currency, are translated into the Group's presentation currency using the following procedures:

Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period. Income and expenses in the statement of comprehensive income presented are translated at average exchange rates for the period. All resulting exchange differences are recognized in other comprehensive income.

Any goodwill arising from the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation. Thus, they are expressed in the functional currency of the foreign operation and are translated into the presentation currency at the closing rate.

On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss (as a reclassification adjustment) when the gains or losses on disposal are recognized. On the partial disposal of a subsidiary that includes a foreign operation, the Group re-attributes the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation, the Group reclassifies to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income.

3.3 Recognition and Measurement of Financial Instruments

3.3.1 Initial recognition

The Group recognizes a financial asset or a financial liability in its statement of financial position when the Group becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets (a purchase or sale of a financial asset under a contract whose terms require delivery of the financial instruments within the time frame established generally by market regulation or practice) is recognized and derecognized using trade date accounting.

The Group classifies financial assets as financial assets at fair value through profit or loss, held-to-maturity financial assets, available-for-sale financial assets, or loans and receivables, or other financial assets. The Group classifies financial liabilities as financial liabilities at fair value through profit or loss, or other financial liabilities. The classification depends on the nature and holding purpose of the financial instrument at initial recognition in the consolidated financial statements.

At initial recognition, a financial asset or financial liability is measured at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value of a financial instrument on initial recognition is normally the transaction price (that is, the fair value of the consideration given or received) in an arm's length transaction.

3.3.2 Subsequent measurement

After initial recognition, financial instruments are measured at amortized cost or fair value based on classification at initial recognition.

Amortized cost

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition and adjusted to reflect principal repayments, cumulative amortization using the effective interest method and any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Fair value

Fair values, which the Group primarily uses for the measurement of financial instruments, are the published price quotations based on market prices or dealer price quotations of financial instruments traded in an active market where available. These are the best evidence of fair value. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity in the same industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If the market for a financial instrument is not active, fair value is determined either by using a valuation technique or independent third-party valuation service. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, referencing to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

The Group uses valuation models that are commonly used by market participants and customized for the Group to determine fair values of common over-the-counter (OTC) derivatives such as options, interest rate swaps and currency swaps which are based on the inputs observable in markets. For more complex instruments, the Group uses internally developed models, which are usually based on valuation methods and techniques generally used within the industry, or a value measured by an independent external valuation institution as the fair values if all or some of the inputs to the valuation models are not market observable and therefore it is necessary to estimate fair value based on certain assumptions.

The Group's Fair Value Evaluation Committee, which consists of the risk management department, trading department and accounting department, reviews the appropriateness of internally developed valuation models, and approves the selection and changing of the external valuation institution and other considerations related to fair value measurement. The review results on the fair valuation models are reported to the Market Risk Management subcommittee by the Fair Value Evaluation Committee on a regular basis.

If the valuation technique does not reflect all factors which market participants would consider in setting a price, the fair value is adjusted to reflect those factors. Those factors include counterparty credit risk, bid-ask spread, liquidity risk and others.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with economic methodologies applied for pricing financial instruments. Periodically, the Group calibrates the valuation technique and tests its validity using prices of observable current market transactions of the same instrument or based on other relevant observable market data.

3.3.3 Derecognition

Derecognition is the removal of a previously recognized financial asset or financial liability from the statement of financial position. The Group derecognizes a financial asset or a financial liability when, and only when:

Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or the financial assets have been transferred and substantially all the risks and rewards of ownership of the financial assets are also transferred, or all the risks and rewards of ownership of the financial assets are neither substantially transferred nor retained and the Group has not retained control. If the Group neither transfers nor disposes of substantially all the risks and rewards of ownership of the financial assets, the Group continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

If the Group transfers the contractual rights to receive the cash flows of the financial asset, but retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognize the transferred asset in its entirely and recognize a financial liability for the consideration received.

Derecognition of financial liabilities

Financial liabilities are derecognized from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires.

3.3.4 Offsetting

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.4 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, foreign currency, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.5 Non-derivative Financial Assets

3.5.1 Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Group as at fair value through profit or loss upon initial recognition.

A non-derivative financial asset is classified as held for trading if either:

- It is acquired for the purpose of selling in the near term, or
- It is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

The Group may designate certain financial assets, other than held for trading, upon initial recognition as at fair value through profit or loss when one of the following conditions is met:

- It eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.
- A group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel.
- A contract contains one or more embedded derivatives; the Group may designate the entire hybrid (combined) contract as a financial asset at fair value through profit or loss if allowed by Korean IFRS 1039, *Financial Instruments: Recognition and measurement*.

The Group did not separate an embedded derivative from its host contract of derivative linked securities but designated the entire hybrid contract as at fair value through profit of loss.

After initial recognition, a financial asset at fair value through profit or loss is measured at fair value and gains or losses arising from a change in the fair value are recognized in profit or loss. Interest income, dividend income, and gains or losses from sale and repayment from financial assets at fair value through profit or loss are recognized in the statement of comprehensive income as net gains on financial instruments at fair value through profit or loss.

3.5.2 Financial Investments

Available-for-sale and held-to-maturity financial assets are presented as financial investments.

Available-for-sale financial assets

Profit or loss of financial assets classified as available for sale, except for impairment loss and foreign exchange gains and losses resulting from changes in amortized cost of debt securities, is recognized as other comprehensive income, and cumulative profit or loss is reclassified from equity to current profit or loss at the derecognition of the financial asset, and it is recognized as part of other operating profit or loss in the statement of comprehensive income.

However, interest income measured using the effective interest method is recognized in current profit or loss, and dividends of financial assets classified as available-for-sale are recognized when the right to receive payment is established.

Available-for-sale financial assets denominated in foreign currencies are translated at the closing rate. For available-for-sale debt securities denominated in foreign currency, exchange differences resulting from changes in amortized cost are recognized in profit or loss as part of other operating income and expenses. For available-for-sale equity securities denominated in foreign currency, the entire change in fair value including any exchange component is recognized in other comprehensive income.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are subsequently measured at amortized cost using the effective interest method after initial recognition and interest income is recognized using the effective interest method.

3.5.3 Loans and receivables

Non-derivative financial assets which meet the following conditions are classified as loans and receivables:

- Those with fixed or determinable payments.
- Those that are not quoted in an active market.
- Those that the Group does not intend to sell immediately or in the near term.
- Those that the Group, upon initial recognition, does not designate as available-for-sale or as at fair value through profit or loss.

After initial recognition, these are subsequently measured at amortized cost using the effective interest method.

If the financial asset is purchased under an agreement to resale the asset at a fixed price or at a price that provides a lender's return on the purchase price, the consideration paid is recognized as loans and receivables.

3.6 Impairment of Financial Assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets except for financial assets at fair value through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. However, losses expected as a result of future events, no matter how likely, are not recognized.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- Significant financial difficulty of the issuer or obligor.
- A breach of contract, such as a default or delinquency in interest or principal payments.
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.
- It becomes probable that the borrower will declare bankruptcy or undergo financial reorganization.
- The disappearance of an active market for that financial asset because of financial difficulties.
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio.

In addition to the types of events in the preceding paragraphs, objective evidence of impairment for an investment in an equity instrument classified as an available-for-sale financial asset includes a significant or prolonged decline in the fair value below its cost. The Group considers the decline in the fair value of over 30% against the original cost as a "significant decline". A decline is considered as prolonged if the period, in which the fair value of the financial asset has been below its original cost at initial recognition, is same as or more than six months.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured and recognized in profit or loss as either provisions for credit loss or other operating income and expenses.

3.6.1 Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant (individual assessment of impairment), and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (collective assessment of impairment).

Individual assessment of impairment

Individual assessment of impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. This process normally encompasses management's best estimate, such as operating cash flow of the borrower and net realizable value of any collateral held.

Collective assessment of impairment
A methodology based on historical loss experience is used to estimate inherent incurred loss on groups of assets for collective assessment of impairment. Such methodology incorporates factors such as type of collateral, product and borrowers, credit rating, loss emergence period, recovery period and applies probability of default on a group of assets and loss given default by type of recovery method. Also, consistent assumptions are applied to form a formula-based model in estimating inherent loss and to determine factors on the basis of historical loss experience and current condition. The methodology and assumptions used for collective assessment of impairment are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment loss on loans reduces the carrying amount of the asset through use of an allowance account, and when a loan becomes uncollectable, it is written off against the related allowance account. If, in a subsequent period, the amount of the impairment loss decreases and is objectively related to the subsequent event after recognition of impairment, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

3.6.2 Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss (the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) that had been recognized in other comprehensive income is reclassified from equity to profit or loss as part of other operating income and expenses.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, a portion of the impairment loss is reversed up to but not exceeding the previously recorded impairment loss, with the amount of the reversal recognized in profit or loss as part of other operating income and expenses in the statement of comprehensive income. However, impairment losses recognized in profit or loss for an available-for-sale equity instrument classified as available for sale are not reversed through profit or loss.

3.6.3 Held-to-maturity financial assets

If there is objective evidence that an impairment loss on held-to-maturity financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognized in profit or loss as part of other operating income and expenses. The impairment loss on held-to-maturity financial assets is directly deducted from the carrying amount.

In the case of a financial asset classified as held to maturity, if, in a subsequent period, the amount of the impairment loss decreases and it is objectively related to an event occurring after the impairment is recognized, a portion of the previously recognized impairment loss is reversed up to but not exceeding the extent of amortized cost at the date of recovery. The amount of reversal is recognized in profit or loss as part of other operating income and expenses in the statement of comprehensive income.

3.7 Derivative Financial Instruments

The Group enters into numerous derivative financial instrument contracts such as currency forwards, interest rate swaps, currency swaps and others for trading purposes or to manage its exposures to fluctuations in interest rates and currency exchange, amongst others. These derivative financial instruments are presented as derivative financial instruments within the consolidated financial statements irrespective of transaction purpose and subsequent measurement requirement.

The Group designates certain derivatives as hedging instruments to hedge the risk of changes in fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge). The Group designates non-derivatives as hedging instruments to hedge the risk of foreign exchange of a net investment in a foreign operation (hedge of net investment).

At the inception of the hedge, there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk.

3.7.1 Derivative financial instruments held for trading

All derivative financial instruments, except for derivatives that are designated and qualify for hedge accounting, are measured at fair value. Gains or losses arising from a change in fair value are recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss.

3.7.2 Fair value hedges

If derivatives qualify for a fair value hedge, the change in fair value of the hedging instrument and the change in fair value of the hedged item attributable to the hedged risk are recognized in profit or loss as part of other operating income and expenses. Fair value hedge accounting is discontinued prospectively if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Once fair value hedge accounting is discontinued, the adjustment to the carrying amount of a hedged item is fully amortized to profit or loss by the maturity of the financial instrument using the effective interest method.

3.7.3 Hedge of net investment

If financial liabilities qualify for a net investment hedge, the effective portion of changes in fair value of hedging instrument is recognized in other comprehensive income or loss and the ineffective portion is recognized in profit or loss. The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognized in other comprehensive income will be reclassified from other comprehensive income or loss to profit or loss as a reclassification adjustment on the disposal or partial disposal of the foreign operation in accordance with Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*.

3.7.4 Embedded derivatives

An embedded derivative is separated from the host contract and accounted for as a derivative if, and only if, the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss. Gains or losses arising from a change in the fair value of an embedded derivative separated from the host contract are recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss.

3.7.5 Day one gain and loss

If the Group uses a valuation technique that incorporates data not obtained from observable markets for the fair value at initial recognition of the financial instrument, there may be a difference between the transaction price and the amount determined using that valuation technique. In these circumstances, the difference is deferred and not recognized in profit or loss, and is amortized by using the straight-line method over the life of the financial instrument. If the fair value of the financial instrument is subsequently determined using observable market inputs, the remaining deferred amount is recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss or other operating income and expenses.

3.8 Property and Equipment

3.8.1 Recognition and measurement

All property and equipment that qualify for recognition as an asset are measured at cost and subsequently carried at cost less any accumulated depreciation and any accumulated impairment losses.

The cost of property and equipment includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent expenditures are capitalized only when they prolong the useful life or enhance values of the assets but the costs of the day-to-day servicing of the assets such as repair and maintenance costs are recognized in profit or loss as incurred.

3.8.2 Depreciation

Land is not depreciated whereas other property and equipment are depreciated using the method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group. The depreciable amount of an asset is determined after deducting its residual value. As for leased assets, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

The depreciation methods and estimated useful lives of the assets are as follows:

Property and equipment	Depreciation method	Estimated useful lives
Buildings and structures	Straight-line	40 years
Leasehold improvements	Declining-balance	4 years
Equipment and vehicles	Declining-balance	4 ~ 5.7 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at least at each financial year end and, if expectations differ from previous estimates or if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the changes are accounted for as a change in an accounting estimate.

3.9 Investment Properties

3.9.1 Recognition and Measurement

Properties held to earn rentals or for capital appreciation or both are classified as investment properties. Investment properties are measured initially at their cost and subsequently the cost model is used.

3.9.2 Depreciation

Land is not depreciated, whereas other investment properties are depreciated using the method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group. The depreciable amount of an asset is determined after deducting its residual value.

The depreciation method and estimated useful lives of the assets are as follows:

Property and equipment	Depreciation method	Estimated useful lives
Buildings	Straight-line	40 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at least at each financial year end and, if expectations differ from previous estimates or if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the changes are accounted for as a change in an accounting estimate.

3.10 Intangible Assets

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

Intangible assets, except for goodwill and membership rights, are amortized using the straight-line method with no residual value over their estimated useful economic life since the asset is available for use.

Intangible assets	Amortization method	Estimated useful lives
Industrial property rights	Straight-line	5~10 years
Software	Straight-line	4 years
Others	Straight-line	4~30 years

The amortization period and the amortization method for intangible assets with a finite useful life are reviewed at least at each financial year end. Where an intangible asset is not being amortized, because its useful life is considered to be indefinite, the Group carries out a review in each accounting period to confirm whether or not events and circumstances still support the assumption of an indefinite useful life. If they do not, the change from the indefinite to finite useful life is accounted for as a change in an accounting estimate.

3.10.1 Goodwill

Recognition and measurement

Goodwill acquired from business combinations before January 1, 2010, is stated at its carrying amount which was recognized under the Group's previous accounting policy, prior to the transition to Korean IFRS.

Goodwill acquired from business combinations after January 1, 2010, is initially measured as the excess of the aggregate of the consideration transferred, fair value of non-controlling interest and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the business acquired, the difference is recognized in profit or loss.

For each business combination, the Group decides whether the non-controlling interest in the acquiree is initially measured at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets at the acquisition date.

Acquisition-related costs incurred to effect a business combination are charged to expenses in the periods in which the costs are incurred and the services are received, except for the costs to issue debt or equity securities.

Additional acquisitions of non-controlling interest

Additional acquisitions of non-controlling interests are accounted for as equity transactions. Therefore, no additional goodwill is recognized.

Subsequent measurement

Goodwill is not amortized and is stated at cost less accumulated impairment losses. However, goodwill that forms part of the carrying amount of an investment in associates is not separately recognized and an impairment loss recognized is not allocated to any asset, including goodwill, which forms part of the carrying amount of the investment in the associates.

3.10.2 Subsequent expenditure

Subsequent expenditure is capitalized only when it enhances values of the assets. Internally generated intangible assets, such as goodwill and trade name, are not recognized as assets but expensed as incurred.

3.11 Leases

3.11.1 Finance lease

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. At the commencement of the lease term, the Group recognizes finance leases as assets and liabilities in its statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs of the lessee are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the Group adopts for depreciable assets that are owned. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is fully depreciated over the shorter of the lease term and its useful life.

3.11.2 Operating lease

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Leases in the financial statements of lessees

Lease payments under an operating lease (net of any incentives received from the lessor) are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the asset's benefit.

Leases in the financial statements of lessors

Lease income from operating leases are recognized in income on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred by the lessors in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

3.12 Greenhouse Gas Emission Rights and Liabilities

The Group measured at zero the emission rights received free of charge from the government following the Enforcement of Allocation and Trading of Greenhouse Gas Emissions Allowances. Emission rights purchased are measured initially at cost and subsequently carried at their costs less any accumulated impairment losses. Emission liabilities are measured as the sum of the carrying amount of emission allowances held by the Group and best estimate of the expenditure required to settle the obligation for any excess emissions at the end of reporting period. The emission rights and liabilities are classified as ‘intangible assets’ and ‘provisions’, respectively, in the consolidated statement of financial position.

The emission rights held for trading are measured at fair value and the changes in fair value are recognized in profit or loss. The changes in fair value and gain or loss on disposal are classified as non-operating income and expenses.

3.13 Impairment of Non-Financial Assets

The Group assesses at the end of each reporting period whether there is any indication that a non-financial asset, except for (i) deferred income tax assets, (ii) assets arising from employee benefits and (iii) non-current assets (or group of assets to be sold) classified as held for sale, may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. However, irrespective of whether there is any indication of impairment, the Group tests

(i) goodwill acquired in a business combination, (ii) intangible assets with an indefinite useful life and (iii) intangible assets not yet available for use for impairment annually by comparing their carrying amount with their recoverable amount.

The recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit). A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit that are discounted by a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss and recognized immediately in profit or loss. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

An impairment loss recognized for goodwill is not reversed in a subsequent period. The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset, other than goodwill, may no longer exist or may have decreased, and an impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

3.14 Non-Current Assets Held for Sale

A non-current asset or disposal group is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For being qualified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. A non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell which is measured in accordance with the applicable Korean IFRS, immediately before the initial classification of the asset (or disposal group) as held for sale.

A non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale is not depreciated (or amortized).

Impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. Gains are recognized for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized.

3.15 Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. After initial recognition, financial liabilities at fair value through profit or loss are measured at fair value and gains or losses arising from changes in the fair value, and gains or losses from sale and repayment of financial liabilities at fair value through profit or loss are recognized as net gains on financial instruments at fair value through profit or loss in the statement of comprehensive income.

3.16 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of provisions, and where the effect of the time value of money is material, the amount of provisions are the present value of the expenditures expected to be required to settle the obligation.

Provisions on confirmed and unconfirmed acceptances and guarantees, unfunded commitments of credit cards and unused credit lines of consumer and corporate loans are recognized using a valuation model that applies the credit conversion factor, probability of default, and loss given default.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provisions are reversed.

If the Group has a contract that is onerous, the present obligation under the contract is recognized and measured as provisions. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the minimum net cost to exit from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

3.17 Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the issuer(the Group) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due according to the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognized at fair value. After initial recognition, financial guarantee contracts are measured at the higher of:

- The amount determined in accordance with Korean IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets, and*
- The initial amount recognized, less, when appropriate, cumulative amortization recognized in accordance with Korean IFRS 1018, *Revenue.*

3.18 Equity Instrument issued by the Group

An equity instrument is any contract or agreement that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted, net of tax, from the equity.

3.19 Revenue Recognition

3.19.1 Interest income and expense

Interest income and expense are recognized using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the Group uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Interest on impaired financial assets is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.19.2 Fee and commission income

The Group recognizes financial service fees in accordance with the accounting standard of the financial instrument related to the fees earned.

Fees that are an integral part of the effective interest of a financial instrument

Such fees are generally treated as adjustments of effective interest. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction and origination fees received on issuing financial liabilities measured at amortized cost. However, fees relating to the creation or acquisition of a financial instrument at fair value through profit or loss are recognized as revenue immediately.

Fees earned as services are provided

Such fees are recognized as revenue as the services are provided. The fees include fees charged for servicing a financial instrument and charged for managing investments.

Fees that are earned on the execution of a significant act

Such fees are recognized as revenue when the significant act has been completed.

Commission on the allotment of shares to a client is recognized as revenue when the shares have been allotted and placement fees for arranging a loan between a borrower and an investor is recognized as revenue when the loan has been arranged.

A syndication fee received by the Group that arranges a loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants) is compensation for the service of syndication. Such a fee is recognized as revenue when the syndication has been completed.

3.19.3 Dividend income

Dividend income is recognized in profit or loss when the right to receive payment is established. Dividend income from financial assets at fair value through profit or loss and financial investment is recognized in profit or loss as part of net gains on financial assets at fair value through profit or loss and other operating income and expenses, respectively.

3.20 Employee Compensation and Benefits

3.20.1 Post-employment benefits:

Defined benefit plans

All post-employment benefits, other than defined contribution plans, are classified as defined benefit plans. The amount recognized as a net defined benefit liability is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period.

The present value of the defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit method. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The currency and term of the corporate bonds are consistent with the currency and estimated term of the post-employment benefit obligations. Actuarial gains and losses including experience adjustments and the effects of changes in actuarial assumptions are recognized in other comprehensive income(loss).

When the total of the present value of the defined benefit obligation minus the fair value of plan assets results in an asset, it is recognized to the extent of the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Past service cost is the change in the present value of the defined benefit obligation, which arises when the Group introduces a defined benefit plan or changes the benefits of an existing defined benefit plan. Such past service cost is immediately recognized as an expense for the year.

Defined contribution plans

The contributions are recognized as employee benefit expense when they are due.

3.20.2 Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service. The undiscounted amount of short-term employee benefits expected to be paid in exchange for that service is recognized as a liability (accrued expense), after deducting any amount already paid.

The expected cost of profit-sharing and bonus payments are recognized as liabilities when the Group has a present legal or constructive obligation to make such payments as a result of past events rendered by employees and a reliable estimate of the obligation can be made.

3.20.3 Share-based payment

The Group operates share-based payment arrangements granting awards to directors and employees of the Group. The Group has a choice of whether to settle the awards in cash or by issuing equity instruments of KB Financial Group Inc., the ultimate parent company, at the date of settlement.

For a share-based payment transaction in which the terms of the arrangement provide the Group with the choice of whether to settle in cash or by issuing equity instruments, the Group determines that it has a present obligation to settle in cash because the Group has a past practice and a stated policy of settling in cash. Therefore, the Group accounts for the transaction in accordance with the requirements of cash-settled share-based payment transactions.

The Group measures the services acquired and the liability incurred at fair value. Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

3.20.4 Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group shall recognize a liability and expense for termination benefits at the earlier of the following dates: when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring that is within the scope of Korean IFRS 1037 and involves the payment of termination benefits. Termination benefits are measured by considering the number of employees expected to accept the offer in the case of a voluntary early retirement. Termination benefits over 12 months after the reporting period are discounted to present value.

3.21 Income Tax Expenses

Income tax expense comprises current tax expense and deferred income tax expense. Current and deferred income tax are recognized as income or expense for the period, except to the extent that the tax arises from a transaction or an event which is recognized, in the same or a different period outside profit or loss, either in other comprehensive income or directly in equity and a business combination.

3.21.1 Current income tax

Current income tax is the amount of income tax payable in respect of the taxable profit (loss) for a period. A difference between the taxable profit and accounting profit may arise when income or expense is included in accounting profit in one period, but is included in taxable profit in a different period. Differences may also arise if there is revenue that is exempt from taxation, or expense that is not deductible in determining taxable profit (loss). Current income tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.
The Group offsets current income tax assets and current income tax liabilities if, and only if, the Group (a) has a legally enforceable right to set off the recognized amounts and (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.21.2 Deferred income tax

Deferred income tax is recognized, using the asset-liability method, on temporary differences arising between the tax based amount of assets and liabilities and their carrying amount in the consolidated financial statements. Deferred income tax liabilities are recognized for all taxable temporary differences and deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, and associates, except for deferred income tax liabilities for which the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of a deferred income tax asset is reviewed at the end of each reporting period. The Group reduces the carrying amount of a deferred income tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred income tax asset to be utilized.

The Group offsets deferred income tax assets and deferred income tax liabilities when the Group has a legally enforceable right to offset current income tax assets against current income tax liabilities; and the deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity; or different taxable entities which intend either to settle current income tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered.

3.21.3 Uncertain tax positions

Uncertain tax positions arise from tax treatments applied by the Group which may be challenged by the tax authorities due to the complexity of the transaction or different interpretation of the tax laws, a claim for rectification brought by the Group, or an appeal for a refund claimed from the tax authorities related to additional assessments. The Group recognizes its uncertain tax positions in the consolidated financial statements based on the guidance in Korean IFRS 1012. The Income tax asset is recognized if a tax refund is probable for taxes paid and levied by the tax authority. However, interest and penalties related to income tax are recognized in accordance with Korean IFRS 1037.

3.22 Transactions with the Trust Accounts

Under the Financial Investment Services and Capital Markets Act, the Group recognizes trust accounts (“the trust accounts”) as separate. The borrowings from trust accounts represent transfer of funds in trust accounts into banking accounts. Such borrowings from trust accounts are recorded as receivables from the banking accounts in the trust accounts and as borrowings from trust accounts in the banking accounts. The Group earns trust fees from the trust accounts for its management of trust assets and operations. The reserves for future profits and losses are set up in the trust accounts for profits and losses related to those trust funds with a guarantee of the principal or of the principal and a certain minimum rate of return in accordance with the relevant laws and regulations applicable to trust operations. The reserves are used to provide for the losses on such trust funds and, if the losses incurred are in excess of the reserves, the excess losses are compensation paid as a loss on trust management in other operating expenses and the trust accounts recognize the corresponding compensation as compensation from banking accounts.

3.23 Operating Segments

Operating segments are components of the Group where separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.
Segment information includes items which are directly attributable and reasonably allocated to the segment.

4. Financial Risk Management

4.1 Summary

4.1.1 Overview of Financial Risk Management Policy

The financial risks that the Group is exposed to are credit risk, market risk, liquidity risk, operational risk and others.

The note regarding financial risk management provides information about the risks that the Group is exposed to, including the objectives, policies and processes for managing the risks, the methods used to measure the risks, and capital adequacy. Additional quantitative information is disclosed throughout the consolidated financial statements.

The Group's risk management system focuses on increasing transparency, developing the risk management environment, preventing transmission of risk to other related subsidiaries, and the preemptive response to risk due to rapid changes in the financial environment to support the Group's long-term strategy and business decisions efficiently. Credit risk, market risk, liquidity risk, and operational risk have been recognized as the Group's key risks. These risks are measured in Economic Capital or Value at Risk (VaR) and are managed using a statistical method.

4.1.2 Risk Management Organization

Risk Management Committee

The Risk Management Committee establishes risk management strategies in accordance with the directives of the Board of Directors and determines the Group's target risk appetite, approves significant risk matters and reviews the level of risks that the Group is exposed to and the appropriateness of the Group's risk management operations as an ultimate decision-making authority.

Risk Management Council

The Risk Management Council is a consultative group which reviews and makes decisions on matters delegated by the Risk Management Committee and discusses the detailed issues relating to the Group's risk management.

Risk Management Subcommittee

The Risk Management Committee enforces decisions made by Risk Management Council, and makes practical decisions to implement risk management policies and procedures.
- Credit Risk Management Subcommittee
The Credit Risk Management Subcommittee reviews the newly developed credit derivatives and exotic products, and the establishment and modification of calculation guideline and measurement methodology on credit exposure limits.

- Market Risk Management Subcommittee
  The Market Risk Management Subcommittee reviews and makes decisions on setting risk limits and approving the standard for investments in newly developed standard, exotic and hybrid products.

- Operational Risk Management Subcommittee
  The Operational Risk Management Subcommittee reviews the issues that have a significant effect on the Group's operational risk relating to establishment, amendment and abolition of major system, process and others.

Risk Management Group

The Risk Management Group is responsible for managing specific policies, procedures and work processes relating to the Group's risk management.

4.2 Credit Risk

4.2.1 Overview of Credit Risk

Credit risk is the risk of possible losses in an asset portfolio in the event of a counterparty's default, breach of contract and deterioration in the credit quality of the counterparty. For risk management reporting purposes, the individual borrower's default risk, country risk, specific risks and other credit risk exposure components are considered as a whole.

4.2.2 Credit Risk Management

The Group measures expected losses and economic capital on assets that are subject to credit risk management whether on- or off-balance sheet items and uses expected losses and economic capital as a management indicator. The Group manages credit risk by allocating credit risk economic capital limits.

In addition, the Group controls the credit concentration risk exposure by applying and managing total exposure limits to prevent an excessive risk concentration to each industry and borrower.

The Group has organized a credit risk management group that focuses on credit risk management in accordance with the Group's credit risk management policy. The Group's credit group, customer service group and SME/SOHO service group, which are independent from the sales department, are responsible for loan policy, loan limit, loan review, credit evaluation, restructuring and subsequent events. The credit risk management group is also responsible for planning risk management policy, applying limits of credit lines, measuring the credit risk economic capital, adjusting credit limits, reviewing credit and verifying credit evaluation models.

4.2.3 Maximum exposure to credit risk

The Group's maximum exposures of financial instruments, excluding equity securities, to credit risk without consideration of collateral values as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Financial assets		
Due from financial institutions	₩ 12,092,294	₩ 11,429,305
Financial assets at fair value through profit or loss		
Financial assets held for trading[1]	6,356,529	7,420,128
Financial assets designated at fair value through profit or loss	70,198	-
Derivatives	2,186,010	1,910,217
Loans[2]	222,738,064	211,525,560
Financial investments		
Available-for-sale financial assets	18,293,533	16,415,900
Held-to-maturity financial assets	11,748,794	10,124,136
Other financial assets	6,887,727	6,529,032
	280,373,149	265,354,278
Off-balance sheet items		
Acceptances and guarantees contracts	8,932,463	8,957,888
Financial guarantee contracts	4,014,116	4,438,399
Commitments	56,752,653	59,458,332
	69,699,232	72,854,619
	₩ 350,072,381	₩ 338,208,897

[1] The amounts of ₩ 69,060 million and ₩ 51,345 million as of December 31, 2015 and 2014, respectively, related to financial instruments indexed to the price of gold are included.
[2] Loans and other financial assets are presented net of allowance for loan losses.

4.2.4 Credit risk of loans

The Group maintains an allowance for loan losses associated with credit risk on loans to manage its credit risk.

Loans are categorized as follows:

(In millions of Korean won)

	2015					
Loans	**Retail**		**Corporate**		**Total**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Neither past due nor impaired	₩ 114,339,823	98.60	₩ 106,622,773	98.00	₩ 220,962,596	98.31
Past due but not impaired	1,095,774	0.94	283,238	0.26	1,379,012	0.61
Impaired	530,988	0.46	1,891,347	1.74	2,422,335	1.08
	115,966,585	100.00	108,797,358	100.00	224,763,943	100.00
Allowances	(432,414)	0.37	(1,593,465)	1.46	(2,025,879)	0.90
Carrying amount	₩ 115,534,171		₩ 107,203,893		₩ 222,738,064	

(In millions of Korean won)

	2014					
Loans	**Retail**		**Corporate**		**Total**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Neither past due nor impaired	₩ 110,154,228	98.14	₩ 98,992,267	97.81	₩ 209,146,495	97.98
Past due but not impaired	1,437,183	1.28	328,393	0.32	1,765,576	0.83
Impaired	652,092	0.58	1,888,994	1.87	2,541,086	1.19
	112,243,503	100.00	101,209,654	100.00	213,453,157	100.00
Allowances	(476,974)	0.42	(1,450,623)	1.43	(1,927,597)	0.90
Carrying amount	₩ 111,766,529		₩ 99,759,031		₩ 211,525,560	

Credit quality of loans that are neither past due nor impaired is as follows:

(In millions of Korean won)

	2015		
	Retail	**Corporate**	**Total**
Grade 1	₩ 100,584,890	₩ 48,340,172	₩ 148,925,062
Grade 2	11,581,264	46,094,415	57,675,679
Grade 3	1,422,572	9,978,535	11,401,107
Grade 4	509,761	1,797,388	2,307,149
Grade 5	241,336	412,263	653,599
	₩ 114,339,823	₩ 106,622,773	₩ 220,962,596

(In millions of Korean won)

	2014		
	Retail	**Corporate**	**Total**
Grade 1	₩ 97,566,588	₩ 42,053,952	₩ 139,620,540
Grade 2	11,043,769	43,764,285	54,808,054
Grade 3	872,739	10,949,734	11,822,473
Grade 4	453,942	1,858,963	2,312,905
Grade 5	217,190	365,333	582,523
	₩ 110,154,228	₩ 98,992,267	₩ 209,146,495

Credit quality of loans graded according to internal credit ratings is as follows:

	Retail	**Corporate**
Grade 1	1 to 5 grade	AAA to BBB+
Grade 2	6 to 8 grade	BBB to BB
Grade 3	9 to 10 grade	BB- to B
Grade 4	11 grade	B- to CCC
Grade 5	12 grade or under	CC or under

Loans that are past due but not impaired are as follows:

(In millions of Korean won)

	2015			
	1 ~ 29 days	**30 ~ 59 days**	**60 ~ 89 days**	**Total**
Retail	₩ 935,766	₩ 108,682	₩ 51,326	₩ 1,095,774
Corporate	214,332	55,832	13,074	283,238
	₩ 1,150,098	₩ 164,514	₩ 64,400	₩ 1,379,012

(In millions of Korean won)

	2014			
	1 ~ 29 days	**30 ~ 59 days**	**60 ~ 89 days**	**Total**
Retail	₩ 1,231,819	₩ 138,947	₩ 66,417	₩ 1,437,183
Corporate	277,288	37,090	14,015	328,393
	₩ 1,509,107	₩ 176,037	₩ 80,432	₩ 1,765,576

Impaired loans are as follows:

(In millions of Korean won)

	2015		
	Retail	**Corporate**	**Total**
Loans	₩ 530,988	₩ 1,891,347	₩ 2,422,335
Allowances	(208,921)	(1,135,346)	(1,344,267)
Individual	-	(955,250)	(955,250)
Collective	(208,921)	(180,096)	(389,017)
	₩ 322,067	₩ 756,001	₩ 1,078,068

(In millions of Korean won)

	2014		
	Retail	**Corporate**	**Total**
Loans	₩ 652,092	₩ 1,888,994	₩ 2,541,086
Allowances	(257,641)	(986,848)	(1,244,489)
Individual	-	(780,376)	(780,376)
Collective	(257,641)	(206,472)	(464,113)
	₩ 394,451	₩ 902,146	₩ 1,296,597

A quantification of the extent to which collateral and other credit enhancements mitigate credit risk as of December 31, 2015 and 2014, is as follows:

(In millions of Korean won)

	2015				
	Impaired Loans		**Non-impaired Loans**		
	Individual	**Collective**	**Past due**	**Not past due**	**Total**
Guarantee	₩ 26,150	₩ 130,774	₩ 248,709	₩ 42,736,193	₩ 43,141,826
Deposits and savings	599	9,875	26,681	1,724,084	1,761,239
Property and equipment	7,888	3,626	181	1,362,910	1,374,605
Real estate	170,694	410,403	826,655	128,875,879	130,283,631
	₩ 205,331	₩ 554,678	₩1,102,226	₩174,699,066	₩176,561,301

(In millions of Korean won)

	2014				
	Impaired Loans		**Non-impaired Loans**		
	Individual	**Collective**	**Past due**	**Not past due**	**Total**
Guarantee	₩ 18,255	₩ 143,431	₩ 277,607	₩ 34,969,421	₩ 35,408,714
Deposits and savings	948	15,466	35,568	1,781,548	1,833,530
Property and equipment	7,604	4,806	1,943	1,151,842	1,166,195
Real estate	177,623	507,705	1,124,130	123,011,312	124,820,770
	₩ 204,430	₩ 671,408	₩1,439,248	₩160,914,123	₩163,229,209

4.2.5 Credit quality of securities

The financial assets at fair value through profit or loss and financial investments, excluding equity securities, that are exposed to credit risk are as follows:

(In millions of Korean won)	**2015**	**2014**
Securities that are neither past due nor impaired	₩ 36,399,994	₩ 33,908,029
Impaired securities	-	790
	₩ 36,399,994	₩ 33,908,819

The credit quality of securities, excluding equity securities that are neither past due nor impaired, as of December 31, 2015 and 2014, is as follows:

(In millions of Korean won)

	2015					
	Grade 1	**Grade 2**	**Grade 3**[1]	**Grade 4**	**Grade 5**	**Total**
Financial assets held for trading	₩ 4,901,368	₩ 1,378,097	₩ 8,004	₩ -	₩ -	₩ 6,287,469
Financial assets designated at fair value through profit or loss	70,198	-	-	-	-	70,198
Available-for-sale financial assets	17,885,148	342,987	65,398	-	-	18,293,533
Held-to-maturity financial assets	11,748,794	-	-	-	-	11,748,794
	₩ 34,605,508	₩ 1,721,084	₩ 73,402	₩ -	₩ -	₩ 36,399,994

(In millions of Korean won)

	2014					
	Grade 1	**Grade 2**	**Grade 3**[1]	**Grade 4**	**Grade 5**	**Total**
Financial assets held for trading	₩ 6,187,646	₩ 1,181,137	₩ -	₩ -	₩ -	₩ 7,368,783
Available-for-sale financial assets	16,062,648	288,531	63,931	-	-	16,415,110
Held-to-maturity financial assets	10,124,136	-	-	-	-	10,124,136
	₩ 32,374,430	₩ 1,469,668	₩ 63,931	₩ -	₩ -	₩ 33,908,029

[1] As there is no foreign credit rating, it is classified as Grade 3.

The credit qualities of securities excluding equity securities according to the credit ratings by external rating agencies are as follows:

Credit quality	**Domestic**			**Foreign**		
	KAP	**KIS**	**NICE P&I**	**S&P**	**Fitch-IBCA**	**Moody's**
Grade 1	AA0 to AAA	AA0 to AAA	AA0 to AAA	A- to AAA	A- to AAA	A3 to Aaa
Grade 2	A- to AA-	A- to AA-	A- to AA-	BBB- to BBB+	BBB- to BBB+	Baa3 to Baa1
Grade 3	BBB0 to BBB+	BBB0 to BBB+	BBB0 to BBB+	BB to BB+	BB to BB+	Ba2 to Ba1
Grade 4	BB0 to BBB-	BB0 to BBB-	BB0 to BBB-	B+ to BB-	B+ to BB-	B1 to Ba3
Grade 5	BB- or under	BB- or under	BB- or under	B or under	B or under	B2 or under

Debt securities' credit qualities denominated in Korean won are based on the lowest credit rating by the three domestic credit rating agencies above, and those denominated in foreign currencies are based on the lowest credit ratings by the three foreign credit rating agencies above.

4.2.6 Credit risk mitigation of derivative financial instruments

A quantification of the extent to which collateral mitigates credit risk of derivative financial instruments as of December 31, 2015 and 2014, is as follows:

(In millions of Korean won)	**2015**	**2014**
Deposits and savings, securities and others	₩424,559	₩ 329,482

4.2.7 Credit risk concentration analysis

The details of the Group's loans by country as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015					
	Retail	**Corporate**	**Total**	**%**	**Allowances**	**Carrying amount**
Korea	₩ 115,924,173	₩ 106,429,100	₩ 222,353,273	98.93	₩ (1,983,058)	₩ 220,370,215
China	30	905,693	905,723	0.40	(17,674)	888,049
Japan	1,737	138,278	140,015	0.06	(21,404)	118,611
United States	-	925,391	925,391	0.41	(1,056)	924,335
Europe	1	180,429	180,430	0.08	(513)	179,917
Others	40,644	218,467	259,111	0.12	(2,174)	256,937
Total	₩ 115,966,585	₩ 108,797,358	₩ 224,763,943	100.00	₩ (2,025,879)	₩ 222,738,064

(In millions of Korean won)

	2014					
	Retail	**Corporate**	**Total**	**%**	**Allowances**	**Carrying amount**
Korea	₩ 112,193,456	₩ 99,117,030	₩ 211,310,486	99.00	₩ (1,876,968)	₩ 209,433,518
China	84	764,415	764,499	0.36	(15,543)	748,956
Japan	2,581	271,914	274,495	0.13	(31,393)	243,102
United States	-	698,294	698,294	0.33	(629)	697,665
Europe	9	184,307	184,316	0.09	(389)	183,927
Others	47,373	173,694	221,067	0.09	(2,675)	218,392
Total	₩ 112,243,503	₩ 101,209,654	₩ 213,453,157	100.00	₩ (1,927,597)	₩ 211,525,560

The details of the Group's corporate loans by industry as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015			
	Loans	%	Allowances	Carrying amount
Financial institutions	₩ 8,591,217	7.90	₩ (12,016)	₩ 8,579,201
Manufacturing	35,333,785	32.48	(801,080)	34,532,705
Service	43,890,888	40.34	(338,056)	43,552,832
Wholesale and retail	13,445,957	12.36	(151,337)	13,294,620
Construction	3,373,093	3.10	(265,776)	3,107,317
Public	783,767	0.72	(5,221)	778,546
Others	3,378,651	3.10	(19,979)	3,358,672
	₩ 108,797,358	100.00	₩ (1,593,465)	₩ 107,203,893

(In millions of Korean won)

	2014			
	Loans	%	Allowances	Carrying amount
Financial institutions	₩ 8,988,881	8.88	₩ (81,715)	₩ 8,907,166
Manufacturing	32,644,110	32.25	(520,898)	32,123,212
Service	39,106,240	38.64	(276,889)	38,829,351
Wholesale and retail	13,150,375	12.99	(150,237)	13,000,138
Construction	3,688,014	3.64	(396,672)	3,291,342
Public	741,679	0.74	(6,718)	734,961
Others	2,890,355	2.86	(17,494)	2,872,861
	₩ 101,209,654	100.00	₩ (1,450,623)	₩ 99,759,031

The details of the Group's retail loans by type as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015			
	Loans	%	Allowances	Carrying amount
Housing purpose	₩ 53,674,493	46.28	₩ (23,345)	₩ 53,651,148
General purpose	62,292,092	53.72	(409,069)	61,883,023
	₩ 115,966,585	100.00	₩ (432,414)	₩ 115,534,171

(In millions of Korean won)	2014			
	Loans	%	Allowances	Carrying amount
Housing purpose	₩ 52,456,336	46.73	₩ (30,199)	₩ 52,426,137
General purpose	59,787,167	53.27	(446,775)	59,340,392
	₩ 112,243,503	100.00	₩ (476,974)	₩ 111,766,529

The details of the Group's securities excluding equity securities and derivative financial instruments by industry as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	
	Amount	**%**
Financial assets held for trading		
Government and government funded institutions	₩ 1,953,030	31.06
Finance and Insurance	3,352,106	53.32
Others	982,333	15.62
	6,287,469	100.00
Financial assets designated at fair value through profit or loss		
Finance and Insurance	70,198	100.00
	70,198	100.00
Derivative financial assets		
Government and government funded institutions	56,652	2.59
Finance and Insurance	1,917,163	87.70
Others	212,195	9.71
	2,186,010	100.00
Available-for-sale financial assets		
Government and government funded institutions	5,223,923	28.56
Finance and Insurance	11,557,597	63.18
Others	1,512,013	8.26
	18,293,533	100.00
Held-to-maturity financial assets		
Government and government funded institutions	5,219,388	44.42
Finance and Insurance	6,168,345	52.50
Others	361,061	3.08
	11,748,794	100.00
	₩ 38,586,004	

(In millions of Korean won)	2014	
	Amount	**%**
Financial assets held for trading		
Government and government funded institutions	₩ 2,683,605	36.42
Finance and Insurance	3,863,046	52.42
Others	822,132	11.16
	7,368,783	100.00
Derivative financial assets		
Government and government funded institutions	19,732	1.03
Finance and Insurance	1,755,495	91.90
Others	134,990	7.07
	1,910,217	100.00
Available-for-sale financial assets		
Government and government funded institutions	7,204,867	43.89
Finance and Insurance	7,458,222	45.43
Others	1,752,811	10.68
	16,415,900	100.00
Held-to-maturity financial assets		
Government and government funded institutions	8,072,831	79.74
Finance and Insurance	1,519,324	15.01
Others	531,981	5.25
	10,124,136	100.00
	₩ 35,819,036	

The details of the Group's securities excluding equity securities and derivative financial instruments by country, as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	
	Amount	%
Financial assets held for trading		
Korea	₩ 6,255,711	99.49
Others	31,758	0.51
	6,287,469	100.00
Financial assets designated at fair value through profit or loss		
Korea	70,198	100.00
Derivative financial assets		
Korea	1,198,321	54.82
United States	297,323	13.60
Others	690,366	31.58
	2,186,010	100.00
Available-for-sale financial assets		
Korea	17,958,267	98.17
Others	335,266	1.83
	18,293,533	100.00
Held-to-maturity financial assets		
Korea	11,373,754	96.81
Others	375,040	3.19
	11,748,794	100.00
	₩ 38,586,004	

(In millions of Korean won)	2014	
	Amount	%
Financial assets held for trading		
Korea	₩ 7,309,697	99.20
Others	59,086	0.80
	7,368,783	100.00
Derivative financial assets		
Korea	736,644	38.56
United States	273,807	14.33
Others	899,766	47.11
	1,910,217	100.00
Available-for-sale financial assets		
Korea	16,363,300	99.68
Others	52,600	0.32
	16,415,900	100.00
Held-to-maturity financial assets		
Korea	10,124,136	100.00
	₩ 35,819,036	

The counterparties to the financial assets under due from financial institutions and financial instruments indexed to the price of gold within financial assets held for trading and derivatives are in the financial and insurance industries which have high credit ratings.

4.3 Liquidity risk

4.3.1 Overview of liquidity risk

Liquidity risk is the risk of insolvency or loss due to a disparity between the inflow and outflow of funds, unexpected outflow of funds, and obtaining funds at a high price or disposing of securities at an unfavorable price due to lack of available funds. The Group manages its liquidity risk through analysis of the contractual maturity of interest-bearing assets and liabilities, assets and liabilities related to the other in and outflows, and off-balance sheet items related to the inflows and outflows of currency derivative instruments and others.

4.3.2. Liquidity risk management and indicator

The liquidity risk is managed by ALM (‘Asset Liability Management’) and related guidelines which are applied to the risk management policies and procedures that addresses all the possible risks that arise from the overall business of the Group.

The Group has to establish the liquidity risk management strategy including the objectives of liquidity risk management, management policies and internal control system, and obtain approval from Risk Management Committee. Risk Management Committee operates the Risk Management Council for the purpose of efficient risk management, monitors establishment and enforcement of policies based on risk management strategy.

For the purpose of liquidity management, the liquidity gap ratio, liquidity ratio, maturity gap ratio and the results of the stress testing related to liquidity risk on transactions affecting the inflows and outflows of funds and transactions of off-balance sheet items are measured, managed and reported to the Risk Management Committee and Risk Management Council on a regular basis.

4.3.3. Analysis of remaining contractual maturity of financial assets and liabilities

Cash flows disclosed below are undiscounted contractual principal and interest to be received (paid) and, thus, differ from the amounts in the consolidated financial statements which are based on the present value of expected cash flows. The amount of interest to be received or paid on floating rate assets and liabilities is measured on the assumption that the current interest rate would be the same through maturity.

The remaining contractual maturity of financial assets and liabilities as of December 31, 2015 and 2014, is as follows:

(In millions of Korean won)	2015						
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets							
Cash and due from financial institutions[1]	₩ 6,032,676	₩ 246,719	₩ 727,859	₩ 662,142	₩ -	₩ -	₩ 7,669,396
Financial assets held for trading[2]	6,417,419	-	-	-	-	-	6,417,419
Financial assets designated at fair value through profit or loss[2]	70,198	-	-	-	-	-	70,198
Derivatives held for trading[2]	2,093,446	-	-	-	-	-	2,093,446
Derivatives held for hedging[3]	-	5,391	18,885	13,558	38,972	111,268	188,074
Loans	-	14,899,299	21,090,406	77,358,018	59,071,999	87,354,815	259,774,537
Available-for-sale financial assets[4]	2,710,980	838,524	1,623,536	4,619,917	10,889,821	1,326,841	22,009,619
Held-to-maturity financial assets	-	380,043	1,052,763	2,342,242	6,857,869	2,582,091	13,215,008
Other financial assets	-	5,365,209	1,438	1,160,950	-	-	6,527,597
	₩ 17,324,719	₩ 21,735,185	₩ 24,514,887	₩ 86,156,827	₩ 76,858,661	₩ 91,375,015	₩ 317,965,294
Financial liabilities							
Financial liabilities held for trading	₩ 69,465	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 69,465
Derivatives held for trading[2]	2,116,752	-	-	-	-	-	2,116,752
Derivatives held for hedging[3]	-	1,981	945	(10,279)	(25,096)	(35,050)	(67,499)
Deposits[5]	100,662,818	14,813,368	25,149,270	73,490,239	10,906,981	3,158,015	228,180,691
Debts	668	3,847,167	1,821,523	4,363,821	3,942,347	537,209	14,512,735
Debentures	68,852	401,430	768,923	5,164,794	8,065,069	2,761,403	17,230,471
Other financial liabilities	-	6,908,783	807	72,725	11,330	84,209	7,077,854
	₩102,918,555	₩25,972,729	₩ 27,741,468	₩ 83,081,300	₩ 22,900,631	₩ 6,505,786	₩ 269,120,469
Off-balance sheet items							
Commitments[6]	₩ 56,752,653	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 56,752,653
Financial guarantee contracts[7]	4,014,116	-	-	-	-	-	4,014,116
	₩ 60,766,769	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 60,766,769

(In millions of Korean won)	2014						
	On demand	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Financial assets							
Cash and due from financial institutions[1]	₩ 6,199,811	₩ 115,410	₩ 397,630	₩ 398,069	₩ -	₩ -	₩ 7,110,920
Financial assets held for trading[2]	7,520,471	-	-	-	-	-	7,520,471
Derivatives held for trading[2]	1,800,664	-	-	-	-	-	1,800,664
Derivatives held for hedging[3]	-	7,742	(1,147)	20,804	77,968	118,803	224,170
Loans	-	15,031,604	20,823,904	73,586,107	55,823,249	87,750,770	253,015,634
Available-for-sale financial assets[4]	2,647,102	435,221	1,537,962	4,386,464	10,272,973	767,319	20,047,041
Held-to-maturity financial assets	-	272,086	630,918	3,354,275	6,281,737	462,437	11,001,453
Other financial assets	-	4,791,711	-	1,293,372	-	-	6,085,083
	₩ 18,168,048	₩ 20,653,774	₩ 23,389,267	₩ 83,039,091	₩ 72,455,927	₩ 89,099,329	₩306,805,436
Financial liabilities							
Financial liabilities held for trading	₩ 51,650	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 51,650
Derivatives held for trading[2]	1,755,674	-	-	-	-	-	1,755,674
Derivatives held for hedging[3]	-	-	652	146	6,304	(15,581)	(8,479)
Deposits[5]	83,199,560	13,960,805	25,460,933	80,474,828	9,602,204	3,266,903	215,965,233
Debts	813	3,958,587	1,814,096	4,840,755	3,646,259	281,796	14,542,306
Debentures	159,620	278,543	1,037,466	3,419,151	7,922,417	3,907,637	16,724,834
Other financial liabilities	-	6,200,724	895	67,886	12,182	86,576	6,368,263
	₩ 85,167,317	₩ 24,398,659	₩ 28,314,042	₩ 88,802,766	₩ 21,189,366	₩ 7,527,331	₩255,399,481
Off-balance sheet items							
Commitments[6]	₩ 59,458,332	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 59,458,332
Financial guarantee contracts[7]	4,438,399	-	-	-	-	-	4,438,399
	₩ 63,896,731	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 63,896,731

[1] The amounts of ₩ 6,905,996 million and ₩ 6,879,144 million, which are restricted amount due from the financial institutions as of December 31, 2015 and 2014, respectively, are excluded.

[2] Financial instruments held for trading, financial assets designated at fair value through profit or loss, and derivatives held for trading are not managed by contractual maturity because they are held for trading or redemption before maturity. Therefore, the carrying amounts are classified as the ‘On demand’ category. However, the Bank has an obligation to purchase bonds at face value(with accrued interest) amounting to USD 300 million if an issuer does not exercise early redemption right at the end of the five-year period from the date of issuance(May 8, 2015) or if the issuer goes bankrupt within five years from the date of issuance. In addition, the Bank has an option to request the issuer to acquire these bonds either in cash or the issuer's stocks at the issuer's choice. These transactions are excluded from the table above.

[3] Cash flows of derivative instruments held for fair value hedging are shown at net amounts of cash inflows and outflows by remaining contractual maturity.

[4] Equity investments in financial assets classified as available-for-sale are generally included in

the 'On demand' category as most are available for sale at anytime. However, in the case of equity investments which are restricted for sale, these are classified in the maturity section to which the end of the restriction period applies.

[5] Deposits that are contractually repayable on demand or on short notice are classified under the 'On demand' category.

[6] Unused lines of credit within commitments are included under the 'On demand' category as payments can be required upon request.

[7] Financial guarantee contracts are included under the 'On demand' category as payments can be required upon request.

4.4 Market risk

4.4.1 Concept

Market risk is the risk of possible losses which arise from changes in market factors, such as interest rate, stock price, foreign exchange rate and other market factors, and incurred in securities, derivatives and others. The most significant risks associated with trading positions are interest rate risks and currency risks, and other risks include stock price risks. In addition, the Group is exposed to interest rate risks associated with non-trading positions. The Group classifies exposures to market risk into either trading or non-trading positions for managerial purpose.

4.4.2 Risk management

The Group sets economic capital limits for market risk and interest rate risk and monitors the risks to manage the risk of trading and non-trading positions. The Group maintains risk management systems and procedures, such as trading policies and procedures, market risk management guidelines for trading positions and ALM risk management guidelines for non-trading positions in order to manage market risk efficiently. The procedures mentioned are implemented with approval from the Risk Management Committee and Risk Management Council.

The Group establishes market risk management policy, sets position limits, loss limits and VaR limits of each business group and approves newly developed products through its Risk Management Council. The Market Risk Management Subcommittee, which is chaired by the Chief Risk Officer (CRO), is the decision maker and sets position limits, loss limits, VaR limits, sensitivity limits and scenario loss limits for each division, at the level of each individual business department.

The ALCO determines the operational standards of interest and commission, the details of establishment and prosecution of the Asset Liability Management (ALM) policies and enacts and amends relevant guidelines. The Risk Management Committee and Risk Management Council monitor the establishment and enforcement of ALM risk management policies and enact and amend ALM risk management guidelines. The interest rate risk limit is set based on the future assets/liabilities position and interest rate volatility estimation reflects the annual work plan. The Financial Planning Department and Risk Management Department measure and monitor the interest risk status and limits on a regular basis. The status and limits of interest rate risks, such as interest rate gap, duration gap and interest rate VaR, are reported to the ALCO and Risk Management Council on a monthly basis and to the Risk Management Committee on a quarterly basis. To ensure adequacy of interest rate and liquidity risk management, the Risk Management Department assigns the limits, monitors and reviews the risk management procedures and tasks conducted by the Financial Planning Department. Also, the Risk Management Department independently reports related information to management.

4.4.3 Trading Position

Definition of a trading position

Trading positions subject to market risk management are interest rate, stock price positions for short-term profit-taking and others. Also, they include all foreign exchange rate positions. The basic requirements of trading positions are defined under the Trading Policy and Guideline, are as follows:

- The trading position is not restricted for purchase and sale, is measured daily at fair value, and its significant inherent risks are able to be hedged in the market.
- The criteria for classification as a trading position are clearly defined in the Trading Policy and guideline, and separately managed by the trading department.
- The trading position is operated in accordance with the documented trading strategy and managed through position limits.
- The operating department or professional dealers have an authority to enforce a deal on the trading position within predetermined limits without pre-approval.
- The trading position is reported periodically to management for the purpose of the Group's risk management.

Observation method on market risk arising from trading positions

The Group calculates VaR to measure the market risk by using market risk management systems on the entire trading portfolio. Generally, the Group manages market risk on the trading portfolio. In addition, the Group controls and manages the risk of derivative trading based on the regulations and guidelines formulated by the Financial Supervisory Service.

Value at Risk (VaR)

i. Value at Risk (VaR)

The Group uses the value-at-risk methodology to measure the market risk of trading positions.

The Group now uses the ten-day VaR, which estimates the maximum amount of loss that could occur in ten days under an historical simulation model which is considered to be a full valuation method. The distributions of portfolio's value changes are estimated based on the data over the previous 250 business days, and ten-day VaR is calculated by subtracting net present market value from the value measured at a 99% confident level of portfolio's value distribution results.

VaR is a commonly used market risk measurement technique. However, the method has some shortcomings. VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movements are, however, not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and magnitude of the actual losses may vary depending on the assumptions made at the time of the calculation. In addition, the time periods used for the model, generally one or ten days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or too long, the VaR results may understate or overstate the potential loss.

The Group uses an internal model (VaR) to measure general risk, and a standard method to measure each individual risk. When the internal model is not permitted for certain market risk, the Group uses the standard method. Therefore, the market risk VaR may not reflect the market risk of each individual risk and some specific positions.

ii. Back-Testing

Back-testing is conducted on a daily basis to validate the adequacy of the VaR model. In back-testing, the Group compares both the actual and hypothetical profit and loss with the VaR calculations.

iii. Stress Testing

Stress testing is carried out to analyze the impact of abnormal market situations on the trading and available-for-sale portfolio. It reflects changes in interest rates, stock prices, foreign exchange rates, implied volatilities of options and other risk factors that have significant influence on the value of the portfolio. The Group uses historical scenarios and hypothetical scenarios for the analysis of abnormal market situations. Stress testing is performed at least once every quarter.

VaR at a 99%, excluding Stressed Value at Risks, confidence level of interest rate, stock price and foreign exchange rate risk for trading positions with a ten-day holding period as of December 31, 2015 and 2014, are as follows:

	2015			
(In millions of Korean won)	**Average**	**Minimum**	**Maximum**	**Ending**
Interest rate risk	₩ 18,403	₩ 10,022	₩ 27,134	₩ 15,788
Stock price risk	1,711	866	3,880	2,040
Foreign exchange rate risk	12,429	8,322	21,935	21,935
Deduction of diversification effect				(16,577)
Total VaR	₩ 23,930	₩ 11,730	₩ 33,885	₩ 23,186

	2014			
(In millions of Korean won)	**Average**	**Minimum**	**Maximum**	**Ending**
Interest rate risk	₩ 12,938	₩ 7,657	₩ 19,801	₩ 10,148
Stock price risk	1,627	714	3,858	851
Foreign exchange rate risk	12,049	5,070	14,705	10,814
Deduction of diversification effect				(8,809)
Total VaR	₩ 15,383	₩ 10,089	₩ 23,560	₩ 13,004

Meanwhile, the market risk of positions related to Kookmin Bank (China) Ltd. and 30-year government bonds, which previously were measured using a standard method, is included in the calculation of VaR according to the approval of internal model from Financial Supervisory Service. The required equity capital using the standard method related to the positions which are not measured by VaR as of December 31, 2015 and 2014, is as follows:

(In millions of Korean won)	**2015**	**2014**
Interest rate risk	₩ 34	₩ 792
Stock price risk	118	1,101
Foreign exchange rate risk	-	9,387
	₩ 152	₩ 11,280

Details of risk factors

i. Interest rate risk

Trading position interest rate risk usually arises from debt securities denominated in Korean won. The Group's trading strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates. The Group manages interest rate risk on major trading portfolio using market value-based tools such as VaR and sensitivity analysis (Price Value of a Basis Point: PVBP).

ii. Stock price risk

Stock price risk only arises from trading securities denominated in Korean won as the Group does not have any trading exposure to shares denominated in foreign currencies. The trading securities portfolio in Korean won are composed of exchange-traded stocks and derivative instruments linked to stock with strict limits on diversification.

iii. Foreign exchange rate risk

Foreign exchange rate risk arises from holding assets and liabilities denominated in foreign currency and foreign currency derivatives. Net foreign currency exposure mostly occurs from the foreign assets and liabilities which are denominated in US dollars and Chinese yuan. The Group sets both loss limits and net foreign currency exposure limits and manages comprehensive net foreign exchange exposures which consider both trading and non-trading portfolios.

4.4.4 Non-trading position

i .Definition of non-trading position

Managed interest rate risk in non-trading position includes on- or off-balance sheet assets, liabilities and derivatives that are sensitive to interest rate, except trading position for market risk. The interest rate sensitive assets and liabilities are interest-bearing assets and liabilities that create interest income and expenses.

ii .Observation method on market risk arising from non-trading position

Interest rate risk occurs due to mismatches on maturities and interest rate reset periods between interest-bearing assets and liabilities. The Group manages the risk through measuring and managing interest rate VaR and EaR that are maximum expected decreases in net asset value (NPV) and net interest income (NII) for one year, respectively, arising from unfavorable changes in market interest rate.

iii. Interest Rate VaR

Interest rate VaR is the maximum possible loss due to interest rate risk under a normal distribution at a 99.94% confidence level. The measurement results of risk as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	**2015**	**2014**
Interest Rate VaR	₩ 94,500	₩ 112,500

4.4.5 Financial assets and liabilities in foreign currencies

Financial assets and liabilities in foreign currencies as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	**2015**						
	USD	**JPY**	**EUR**	**GBP**	**CNY**	**Others**	**Total**
Financial assets							
Cash and due from financial institutions	₩ 2,008,023	₩ 227,546	₩ 114,154	₩ 14,891	₩ 91,694	₩ 182,757	₩ 2,639,065
Financial assets held for trading	35,025	-	2,616	-	-	-	37,641
Derivatives held for trading	64,690	-	354	-	-	-	65,044
Derivatives held for hedging	8,610	-	-	-	-	-	8,610
Loans	12,873,728	507,615	458,483	19,365	4,329	136,560	14,000,080
Available-for-sale financial assets	1,245,415	60,591	-	-	-	871	1,306,877
Held-to-maturity financial assets	375,040	-	-	-	-	-	375,040
Other financial assets	981,637	182,766	216,546	5,381	192,667	145,218	1,724,215
	₩17,592,168	₩ 978,518	₩ 792,153	₩ 39,637	₩ 288,690	₩ 465,406	₩ 20,156,572

	USD	JPY	EUR	GBP	CNY	Others	Total
Financial liabilities							
Derivatives held for trading	₩ 92,115	₩ -	₩ 458	₩ -	₩ -	₩ -	₩ 92,573
Derivatives held for hedging	21,461	-	-	-	-	-	21,461
Deposits	6,390,919	496,224	384,116	22,674	58,848	374,717	7,727,498
Debts	6,650,235	217,887	143,060	7,916	4,511	110,535	7,134,144
Debentures	3,519,615	-	106,284	-	-	157,337	3,783,236
Other financial liabilities	1,702,027	98,431	160,867	10,454	185,652	26,639	2,184,070
	₩18,376,372	₩812,542	₩794,785	₩ 41,044	₩ 249,011	₩ 669,228	₩20,942,982
Off-balance sheet items	₩14,900,814	₩ 3,612	₩ 1,281	₩ -	₩ 3,190	₩ 81,206	₩14,990,103

(In millions of Korean won)	2014						
	USD	**JPY**	**EUR**	**GBP**	**CNY**	**Others**	**Total**
Financial assets							
Cash and due from financial institutions	₩ 1,517,144	₩ 145,574	₩ 104,880	₩ 10,827	₩ 47,653	₩115,641	₩ 1,941,719
Financial assets held for trading	43,753	-	15,333	-	-	-	59,086
Derivatives held for trading	55,879	-	694	-	-	-	56,573
Derivatives held for hedging	5,032	-	-	-	-	-	5,032
Loans	10,753,455	900,972	402,656	6,613	3,492	115,633	12,182,821
Available-for-sale financial assets	797,416	-	-	-	-	870	798,286
Other financial assets	1,189,303	61,140	75,970	1,710	46,434	8,908	1,383,465
	₩14,361,982	₩1,107,686	₩ 599,533	₩ 19,150	₩ 97,579	₩241,052	₩16,426,982
Financial liabilities							
Derivatives held for trading	₩ 85,042	₩ -	₩ 920	₩ -	₩ -	₩ -	85,962
Derivatives held for hedging	226	-	-	-	-	-	226
Deposits	4,612,649	386,851	188,386	19,887	21,297	273,317	5,502,387
Debts	6,388,482	258,483	303,866	880	3,577	168,908	7,124,196
Debentures	2,766,605	73,606	26,731	-	-	22,672	2,889,614
Other financial liabilities	1,194,856	76,150	78,093	7,157	46,710	13,029	1,415,995
	₩15,047,860	₩ 795,090	₩ 597,996	₩ 27,924	₩ 71,584	₩477,926	₩17,018,380
Off-balance sheet items	₩17,252,450	₩ 3,511	₩ 6,549	₩ 4,704	₩ 11,628	₩ 72,747	₩17,351,589

4.5 Operational Risk

4.5.1 Concept

The Group defines operational risk as risk of loss resulting from inadequate or failed internal processes, people, systems and external events. The operational risk includes financial and non-financial risks.

4.5.2 Risk management

The purpose of operational risk management is not only to comply with requirements of regulatory authorities but is also to establish an integrated system to cultivate enterprise culture that values importance of risk management, strengthen internal controls, improve processes and provide with timely feedback to management and employees so that eventually mitigate operational risk of the company. In addition, the Group established Business Continuity Planning (BCP) to ensure critical business functions can be maintained, or restored, in the event of material disruptions arising from internal or external events. It has constructed replacement facilities as well as has carried out full scale test for head office and IT departments to test its BCPs.

4.6 Capital Adequacy

The Group complies with the capital adequacy standard established by the Financial Services Commission. The capital adequacy standard is based on Basel III revised by Basel Committee on Banking Supervision in Bank for International Settlements in June 2011, and was implemented in Korea in December 2013. The Group is required to maintain a minimum Common Equity Tier 1 ratio of at least 4.5% (2014: 4.0%), a minimum Tier 1 ratio of 6.0% (2014: 5.5%) and a minimum Total Regulatory Capital of 8.0% (2014: 8.0%) as of December 31, 2015.

The Group’s equity capital is classified into three categories in accordance with Detailed Supervisory Regulations on Banking Business:

- Common Equity Tier 1 Capital: Common equity Tier 1 Capital represents the issued capital that takes the first and proportionately greatest share of any losses and represents the most subordinated claim in liquidation of the Group, and not repaid outside of liquidation. It includes common shares issued, capital surplus, retained earnings, non-controlling interests of consolidated subsidiaries, accumulated other comprehensive income, other capital surplus and others.

- Additional Tier 1 Capital: Additional Tier 1 Capital includes perpetual instruments issued by the Group that meet the criteria for inclusion in Additional Tier 1 capital, and stock surplus resulting from the issue of instruments included in Additional Tier 1 capital and others.

- Tier 2 Capital: Tier 2 Capital represents the capital that takes the proportionate share of losses in the liquidation of the Group. Tier 2 Capital includes a fund raised by issuing subordinated debentures maturing in not less than 5 years that meet the criteria for inclusion in Tier 2 capital, and the allowance for loan losses which are accumulated for assets classified as normal or precautionary in accordance with Regulations on Supervision of Banking Business and others.

Risk-weighted asset means the assets weighted according to the inherent risks in the total assets and the possible losses resulting from the errors of internal process and external events which the Group should cover. The Group calculates risk-weighted asset by each risk (credit risk, market risk, and operational risk) based on Detailed Regulations on Supervision of Banking Business and uses it for its capital ratio calculation.

In addition to the capital ratio, the Group assesses its adequacy of capital by using the internal assessment and management policy of the capital adequacy. The assessment of the capital adequacy is conducted by comparing available capital (actual amount of available capital) and economic capital (amount of capital enough to cover all significant risks under target credit rate set by the Group). The Group monitors the soundness of finance and provides risk adjusted basis for performance review using the assessment of the capital adequacy. The economic capital is calculated by adding the stress testing results and other required items to the total economic capitals which are calculated for each risk.

The Risk Management Council of the Group determines the Group's risk appetite and allocates economic capital by risk type and business group. Each business group efficiently operates its capital within range of granted economic capital. The Risk Management Department of the Group monitors a management of the limit on economic capital and reports the results to management and the Risk Management Council. The Group maintains the adequacy of capital through proactive review and approval of the Risk Management Committee when the economic capital is expected to exceed the limits due to new business or business expansion. The Group and its subsidiaries complied with external capital adequacy requirements as of December 31, 2015 and 2014.

The details of the Group's capital adequacy calculation in line with Basel Ⅲ requirements as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	**2015**	**2014**
Equity capital	₩ 23,685,782	₩ 23,421,797
Tier I Capital	20,331,795	19,620,849
Common Equity Tier 1 Capital	20,331,795	19,620,849
Tier II Capital	3,353,987	3,800,948
Risk-weighted assets:	147,972,883	146,689,770
Credit risk[1]	133,389,054	132,453,117
Market risk[2]	4,189,408	3,445,138
Operational risk[3]	10,394,421	10,791,515
Equity Capital (%):	16.01	15.97
Tier I Capital (%)	13.74	13.38
Common Equity Tier 1 Capital (%)	13.74	13.38

[1] Credit risk-weighted assets are measured using the Internal Rating-Based Approach and Standardized Approach.
[2] Market risk-weighted assets are measured using the Internal Model-Based Approach and Standardized Approach.
[3] Operational risk-weighted assets are measured using the Advanced Measurement Approach.

5. Segment Information

5.1 Overall Segment Information and Business Segments

The Group is organized into Corporate Banking, Retail Banking and Other Activities. These business divisions are based on the nature of the products and services provided, the type or class of customer, and the Group's management organization.

- Corporate banking : The activities within this segment include providing credit, deposit products and other related financial services to large, small-and medium-sized enterprises and SOHOs.
- Retail banking : The activities within this segment include providing credit, deposit products and other related financial services to individuals and households.
- Other activities : The activities within this segment include trading activities in securities and derivatives, funding and other supporting activities.

Financial information by business segment as of and for the year ended December 31, 2015, is as follows:

(In millions of Korean won)	2015				
	Corporate Banking	**Retail Banking**	**Others**	**Intra-group Adjustment**	**Total**
Operating revenues from external customers	₩1,720,023	₩2,115,837	₩1,897,562	₩ -	₩5,733,422
Segment operating revenues(expenses)	(630)	-	11,059	(10,429)	-
	1,719,393	2,115,837	1,908,621	(10,429)	5,733,422
Net interest income	2,320,217	2,102,326	289,022	182	4,711,747
Interest income	3,513,603	3,858,102	1,028,870	(12,193)	8,388,382
Interest expense	(1,193,386)	(1,755,776)	(739,848)	12,375	(3,676,635)
Net fee and commission income	232,708	569,832	370,767	(16,934)	1,156,373
Fee and commission income	296,498	671,184	421,946	(17,574)	1,372,054
Fee and commission expense	(63,790)	(101,352)	(51,179)	640	(215,681)
Net gains(losses) on financial assets/ liabilities at fair value through profit or loss	37	-	286,991	-	287,028
Net other operating income(expenses)	(833,569)	(556,321)	961,841	6,323	(421,726)
General and administrative expenses	(847,029)	(2,004,800)	(960,183)	191	(3,811,821)
Operating profit before provision for credit losses	872,364	111,037	948,438	(10,238)	1,921,601
Provision(reversal) for credit losses	(715,926)	(80,213)	54,428	91	(741,620)
Operating profit	156,438	30,824	1,002,866	(10,147)	1,179,981
Share of profit of associates	-	-	7,812	-	7,812
Net other non-operating income	1,317	-	202,783	(10,664)	193,436
Segment profit before income tax expense	157,755	30,824	1,213,461	(20,811)	1,381,229
Income tax expense	(38,973)	(7,460)	(214,275)	(13,283)	(273,991)
Profit for the period	118,782	23,364	999,186	(34,094)	1,107,238
Profit attributable to shareholders of the parent company	118,782	23,364	999,186	(34,094)	1,107,238
Profit attributable to non-controlling interests	-	-	-	-	-
Total assets[1]	103,042,327	114,849,508	75,393,978	(3,007,906)	290,277,907

Total liabilities[1]	89,293,741	130,631,229	49,263,959	(1,658,233)	267,530,696

[1] Amounts before intra-group transaction adjustment.

Financial information by business segment as of and for the year ended December 31, 2014, is as follows:

(In millions of Korean won)	2014				
	Corporate Banking	**Retail Banking**	**Others**	**Intra-group Adjustment**	**Total**
Operating revenues from external customers	₩1,742,308	₩2,211,969	₩1,682,954	₩ -	₩5,637,231
Segment operating revenues(expenses)	38,379	(48,256)	60,295	(50,418)	-
	1,780,687	2,163,713	1,743,249	(50,418)	5,637,231
Net interest income	2,448,966	2,079,834	407,018	35,628	4,971,446
Interest income	4,008,584	4,432,760	1,286,127	(24,844)	9,702,627
Interest expense	(1,559,618)	(2,352,926)	(879,109)	60,472	(4,731,181)
Net fee and commission income	237,229	524,784	333,768	(17,736)	1,078,045
Fee and commission income	277,196	597,072	416,316	(19,246)	1,271,338
Fee and commission expense	(39,967)	(72,288)	(82,548)	1,510	(193,293)
Net gains(losses) on financial assets/ liabilities at fair value through profit or loss	179	(20,238)	376,282	68	356,291
Net other operating income(expenses)	(905,687)	(420,667)	626,181	(68,378)	(768,551)
General and administrative expenses	(711,029)	(1,695,563)	(966,266)	-	(3,372,858)
Operating profit before provision for credit losses	1,069,658	468,150	776,983	(50,418)	2,264,373
Provision for credit losses	(566,942)	(304,116)	(10,204)	(6,392)	(887,654)
Operating profit	502,716	164,034	766,779	(56,810)	1,376,719
Share of profit of associates	-	-	17,555	-	17,555
Net other non-operating income	1,242	-	20,309	(55,550)	(33,999)
Segment profit before income tax expense	503,958	164,034	804,643	(112,360)	1,360,275
Income tax expense	(120,504)	(53,967)	(156,056)	(707)	(331,234)
Profit for the period	383,454	110,067	648,587	(113,067)	1,029,041
Profit attributable to shareholders of the parent company	383,454	110,067	648,587	(113,067)	1,029,041
Profit attributable to non-controlling interests	-	-	-	-	-
Total assets[1]	94,313,469	111,074,156	74,917,627	(4,851,588)	275,453,664
Total liabilities[1]	83,780,834	123,792,699	47,552,921	(1,613,263)	253,513,191

[1] Amounts before intra-group transaction adjustment.

5.2 Services and Geographical Segments

5.2.1 Services information

Operating revenues from external customers by services for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Corporate banking service	₩ 1,720,023	₩ 1,742,308
Retail banking service	2,115,837	2,211,969
Other service	1,897,562	1,682,954
	₩ 5,733,422	₩ 5,637,231

5.2.2 Geographical information

Operating revenues from external customers for the years ended December 31, 2015 and 2014, and major non-current assets as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015		2014	
	Revenues from external customers	Major non-current assets	Revenues from external customers	Major non-current assets
Domestic	₩ 5,657,170	₩ 3,493,248	₩ 5,533,506	₩ 3,492,836
United States	11,847	276	11,655	256
New Zealand	5,143	209	6,684	193
China	30,590	6,949	46,892	7,518
Japan	10,709	1,547	19,842	1,391
Argentina	-	-	573	-
Vietnam	3,358	239	3,130	287
Cambodia	5,072	350	5,364	564
United Kingdom	9,533	130	9,585	108
Intra-group adjustment	-	1,202	-	1,202
	₩ 5,733,422	₩ 3,504,150	₩ 5,637,231	₩ 3,504,355

6. Financial Assets and Financial Liabilities

6.1 Classification and Fair Value

Carrying amount and fair values of financial assets and liabilities as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and due from financial institutions	₩ 14,562,990	₩ 14,562,700	₩ 13,973,510	₩ 13,973,773
Financial assets held for trading	6,417,419	6,417,419	7,520,471	7,520,471
Debt securities	6,287,469	6,287,469	7,368,783	7,368,783
Equity securities	60,890	60,890	100,343	100,343
Others	69,060	69,060	51,345	51,345
Financial assets designated at fair value through profit or loss	70,198	70,198	-	-
Derivative linked securities	70,198	70,198	-	-
Derivatives held for trading	2,093,458	2,093,458	1,800,664	1,800,664
Derivatives held for hedging	92,552	92,552	109,553	109,553
Loans	222,738,064	222,711,536	211,525,560	211,830,395
Available-for-sale financial assets	21,163,192	21,163,192	19,134,391	19,134,391
Debt securities	18,293,533	18,293,533	16,415,900	16,415,900
Equity securities	2,869,159	2,869,159	2,717,991	2,717,991
Others	500	500	500	500
Held-to-maturity financial assets	11,748,794	12,072,793	10,124,136	10,486,946
Other financial assets	6,887,727	6,887,727	6,529,032	6,529,032
	₩ 285,774,394	₩286,071,575	₩270,717,317	₩271,385,225
Financial liabilities				
Financial liabilities held for trading	₩ 69,465	₩ 69,465	₩ 51,650	₩ 51,650
Derivatives held for trading	2,116,766	2,116,766	1,755,674	1,755,674
Derivatives held for hedging	21,957	21,957	3,425	3,425
Deposits	224,333,507	225,012,816	211,611,432	212,004,857
Debts	14,291,815	14,321,296	14,297,460	14,344,110
Debentures	15,949,134	16,436,457	15,250,464	15,693,318
Other financial liabilities	9,612,261	9,612,273	9,344,847	9,344,892
	₩ 266,394,905	₩267,591,030	₩252,314,952	₩253,197,926

The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The Group discloses the fair value of each class of assets and liabilities in a way that permits it to be compared with its carrying amount at the end of each reporting period. The best evidence of fair value of financial instruments is a quoted price in an active market.

Methods of determining fair value for financial instruments are as follows:

Cash and due from financial institutions	The carrying amounts of cash and demand due from financial institutions and payment due from financial institutions are reasonable approximation of fair values. These financial instruments do not have a fixed maturity and are receivable on demand. Fair value of ordinary due from financial institutions is measured using DCF model (Discounted Cash Flow Model).
Investment securities	The fair value of financial instruments that are quoted in active markets is determined using the quoted prices. Fair value is determined through the use of independent third-party pricing services where quoted prices are not available. Pricing services use one or more of the following valuation techniques including DCF Model, FCFE(Free Cash Flow to Equity Model), Comparable Company Analysis, Dividend Discount Model, Risk Adjusted Discount Rate Method, and Net Asset Value Method.
Loans	DCF Model is used to determine the fair value of loans. Fair value is determined by discounting the expected cash flows, which are contractual cash flows adjusted by the expected prepayment rate, at appropriate discount rate.
Derivatives	For exchange traded derivatives, quoted price in an active market is used to determine fair value and for OTC derivatives, fair value is determined using valuation techniques. The Group uses internally developed valuation models that are widely used by market participants to determine fair values of plain OTC derivatives including options, interest rate swaps, and currency swaps, based on observable market parameters. However, some complex financial instruments are valued using appropriate models developed from generally accepted market valuation models including the Finite Difference Method and the Monte Carlo Simulation or independent third-party valuation service.
Deposits	The carrying amount of demand deposits is regarded as representative of fair value because they do not have a fixed maturity and are payable on demand. Fair value of time deposits is determined using a DCF model. Fair value is determined by discounting the expected cash flows, which are contractual cash flows adjusted by the expected prepayment rate, at an appropriate discount rate.
Debts	The carrying amount of overdraft in foreign currency is regarded as representative of fair value because they do not have a fixed maturity and are payable on demand. Fair value of other debts is determined using a DCF model discounting contractual future cash flows at an appropriate discount rate.
Debentures	Fair value is determined by using the valuations of independent third-party pricing services, which are calculated using market inputs.
Other financial assets and other financial liabilities	The carrying amounts are reasonable approximation of fair values. These financial instruments are temporary accounts used for other various transactions and their maturities are relatively short or not defined. However,

fair value of finance lease liabilities is measured using a DCF model.

Fair value hierarchy

The Group believes that valuation methods used for measuring the fair values of financial instruments are reasonable and that the fair values recognized in the statements of financial position are appropriate. However, the fair values of the financial instruments recognized in the statements of financial position may be different if other valuation methods or assumptions are used. Additionally, as there is a variety of valuation techniques and assumptions used in measuring fair value, it may be difficult to reasonably compare the fair value with that of other financial institutions.

The Group classifies and discloses the fair value of the financial instruments into the following three-level hierarchy:

Level 1: The fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: The fair values except for quoted prices included within Level 1 are based on inputs that are observable for the asset or liability, either directly or indirectly.

Level 3: The fair values are based on unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

Fair value hierarchy of financial assets and liabilities measured at fair value in the statements of financial position

The fair value hierarchy of financial assets and liabilities measured at fair value in the statements of financial position as of December 31, 2015 and 2014, is as follows:

	2015			
(In millions of Korean won)	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Debt securities	₩ 2,075,176	₩ 4,212,293	₩ -	₩ 6,287,469
Equity securities	32,584	28,306	-	60,890
Others	69,060	-	-	69,060
	2,176,820	4,240,599	-	6,417,419
Financial assets designated at fair value through profit or loss				
Derivative linked securities	-	-	70,198	70,198
	-	-	70,198	70,198
Derivatives held for trading	-	2,092,861	597	2,093,458
Derivatives held for hedging	-	91,341	1,211	92,552
Available-for-sale financial assets				
Debt securities	5,788,898	12,504,635	-	18,293,533
Equity securities[1]	818,227	497,393	1,553,539	2,869,159
Others	-	500	-	500
	6,607,125	13,002,528	1,553,539	21,163,192
	₩ 8,783,945	₩ 19,427,329	₩ 1,625,545	₩ 29,836,819
Financial liabilities				
Financial liabilities held for trading	₩ 69,465	₩ -	₩ -	₩ 69,465
Derivatives held for trading	-	2,114,609	2,157	2,116,766
Derivatives held for hedging	-	21,460	497	21,957
	₩ 69,465	₩ 2,136,069	₩ 2,654	₩ 2,208,188

	2014			
(In millions of Korean won)	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Debt securities	₩ 3,190,784	₩ 4,177,999	₩ -	₩ 7,368,783
Equity securities	68,963	31,380	-	100,343
Others	51,345	-	-	51,345
	3,311,092	4,209,379	-	7,520,471
Derivatives held for trading	-	1,768,638	32,026	1,800,664
Derivatives held for hedging	-	109,293	260	109,553
Available-for-sale financial assets				
Debt securities	6,707,878	9,708,022	-	16,415,900
Equity securities[1]	1,145,988	633	1,571,370	2,717,991
Others	-	500	-	500
	7,853,866	9,709,155	1,571,370	19,134,391
	₩ 11,164,958	₩ 15,796,465	₩ 1,603,656	₩ 28,565,079
Financial liabilities				
Financial liabilities held for trading	₩ 51,650	₩ -	₩ -	₩ 51,650
Derivatives held for trading	-	1,747,645	8,029	1,755,674
Derivatives held for hedging	-	1,144	2,281	3,425
	₩ 51,650	₩ 1,748,789	₩ 10,310	₩ 1,810,749

[1] The amounts of equity securities carried at cost in “Level 3” which do not have a quoted market price in an active market and cannot be measured reliably at fair value are ₩ 24,571 million and ₩ 27,526 million as of December 31, 2015 and 2014, respectively. These equity securities are carried at cost because it is practically difficult to quantify the intrinsic values of the equity securities issued by unlisted public and non-profit entities. In addition, due to significant fluctuations in estimated cash flows arising from entities being in its initial stages, which further results in varying and unpredictable probabilities, unlisted equity securities issued by project financing cannot be reliably and reasonably assessed. Therefore, these equity securities are carried at cost. The Group has no plan to dispose of the financial instruments in the near future.

Valuation techniques and the inputs used in the fair value measurement of financial assets and liabilities classified as Level 2

Valuation techniques and inputs of financial assets and liabilities measured at fair value in the statements of financial position and classified as Level 2 as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	Fair value 2015	Fair value 2014	Valuation techniques	Inputs
Financial assets				
Financial assets held for trading				
Debt securities	₩ 4,212,293	₩ 4,177,999	DCF model	Discount rate
Equity securities	28,306	31,380	DCF model	Discount rate
	4,240,599	4,209,379		
Derivatives held for trading	2,092,861	1,768,638	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate, stock price and others
Derivatives held for hedging	91,341	109,293	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate and others
Available-for-sale financial assets				
Debt securities	12,504,635	9,708,022	DCF model	Discount rate
Equity securities	497,393	633	DCF model	Discount rate
Others	500	500	DCF model	Discount rate
	13,002,528	9,709,155		
	₩ 19,427,329	₩15,796,465		
Financial liabilities				
Derivatives held for trading	₩ 2,114,609	₩ 1,747,645	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate, stock price and others
Derivatives held for hedging	21,460	1,144	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate and others
	₩ 2,136,069	₩ 1,748,789		

Fair value hierarchy of financial assets and liabilities whose fair value is disclosed

The fair value hierarchy of financial assets and liabilities whose fair value is disclosed as of December 31, 2015 and 2014, is as follows:

(In millions of Korean won)	2015			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and due from financial institutions[1]	₩ 2,470,696	₩ 10,405,952	₩ 1,686,052	₩ 14,562,700
Loans	-	-	222,711,536	222,711,536
Held-to-maturity financial assets	1,775,755	10,297,038	-	12,072,793
Other financial assets[2]	-	-	6,887,727	6,887,727
	₩ 4,246,451	₩ 20,702,990	₩ 231,285,315	₩ 256,234,756
Financial liabilities				
Deposits[1]	₩ -	₩ 100,361,458	₩ 124,651,358	₩ 225,012,816
Debts[1]	-	9,884	14,311,412	14,321,296
Debentures	-	16,436,457	-	16,436,457
Other financial liabilities[3]	-	-	9,612,273	9,612,273
	₩ -	₩ 116,807,799	₩ 148,575,043	₩ 265,382,842

(In millions of Korean won)	2014			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and due from financial institutions[1]	₩ 2,544,205	₩ 10,198,808	₩ 1,230,760	₩ 13,973,773
Loans	-	-	211,830,395	211,830,395
Held-to-maturity financial assets	2,616,385	7,870,561	-	10,486,946
Other financial assets[2]	-	-	6,529,032	6,529,032
	₩ 5,160,590	₩ 18,069,369	₩219,590,187	₩ 242,820,146
Financial liabilities				
Deposits[1]	₩ -	₩ 82,783,564	₩129,221,293	₩ 212,004,857
Debts[1]	-	48,984	14,295,126	14,344,110
Debentures	-	15,693,318	-	15,693,318
Other financial liabilities[3]	-	-	9,344,892	9,344,892
	₩ -	₩ 98,525,866	₩152,861,311	₩ 251,387,177

[1] The amounts included in Level 2 are the carrying amounts which are reasonable approximation of the fair values.

[2] The amounts of other financial assets included in Level 3 are the carrying amounts which are reasonable approximation of the fair values as of December 31, 2015 and 2014.

[3] The ₩ 9,610,088 million and ₩9,331,606 million of other financial liabilities included in Level 3 are the carrying amounts which are reasonable approximation of fair values as of December 31,

2015 and 2014, respectively.

Valuation techniques and inputs used in the fair value measurement

Valuation techniques and inputs of financial assets and liabilities which are disclosed by the carrying amounts because it is a reasonable approximation of fair value are not subject to be disclosed.

Valuation techniques and inputs of financial assets and liabilities whose fair values are disclosed and classified as Level 2 as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	Fair value		Valuation Techniques	Inputs
	2015	2014		
Financial assets				
Held-to-maturity financial assets	₩ 10,297,038	₩ 7,870,561	DCF model	Discount rate
Financial liabilities				
Debentures	₩ 16,436,457	₩ 15,693,318	DCF model	Discount rate

Valuation techniques and inputs of financial assets and liabilities whose fair values are disclosed and classified as Level 3 as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	Fair value		Valuation techniques	Inputs	Unobservable inputs
	2015	2014			
Financial assets					
Cash and due from financial institutions	₩ 1,686,052	₩ 1,230,760	DCF model	Credit spread, other spread, interest rate	Credit spread, other spread
Loans	222,711,536	211,830,395	DCF model	Credit spread, other spread, prepayment rate, interest rate	Credit spread, other spread, prepayment rate
	₩ 224,397,588	₩ 213,061,155			
Financial liabilities					
Deposits	₩ 124,651,358	₩ 129,221,293	DCF model	Other spread, prepayment rate, interest rate	Other spread, prepayment rate
Debts	14,311,412	14,295,126	DCF model	Other spread, interest rate	Other spread
Other financial liabilities	2,185	13,286	DCF model	Other spread, interest rate	Other spread
	₩ 138,964,955	₩ 143,529,705			

6.2 Level 3 of the fair value hierarchy disclosure

6.2.1 Valuation policy and process of Level 3 fair value

The Group uses external, independent and qualified independent third-party valuation service in addition to internal valuation models to determine the fair value of the Group's assets at the end of every reporting period.

Where a reclassification between the levels of the fair value hierarchy occurs for a financial asset or liability, the Group’s policy is to recognize such transfers as having occurred at the beginning of the reporting period.

6.2.2 Changes in fair value (Level 3) measured using valuation technique based on unobservable in market

Changes in Level 3 of the fair value hierarchy for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015			
	Financial assets at fair value through profit or loss	Financial investments	Net derivatives	
		Available-for-sale financial assets		
		Equity securities	Derivatives held for trading	Derivatives held for hedging
Beginning balance	₩ -	₩ 1,571,370	₩ 23,997	₩ (2,021)
Total gains or losses				
- Profit or loss	(4,802)	204,429	(1,447)	2,735
- Other comprehensive-income	-	(86,953)	-	-
Purchases	75,000	415,633	277	-
Sales	-	(552,600)	-	-
Issues	-	-	-	-
Settlements	-	-	(24,387)	-
Transfers into Level 3[1]	-	24,850	-	-
Transfers out of Level 3[1]	-	(23,190)	-	-
Ending balance	₩ 70,198	₩ 1,553,539	₩ (1,560)	₩ 714

(In millions of Korean won)	2014		
	Financial investments	Net derivatives	
	Available-for-sale financial assets		
	Equity securities	Derivatives held for trading	Derivatives held for hedging
Beginning balance	₩ 1,561,667	₩ (4,654)	₩ (8,390)
Total gains or losses			
- Profit or loss	(112,649)	(1,393)	6,579
- Other comprehensive-income	118,579	-	-
Purchases	154,243	-	-
Sales	(170,591)	-	-
Issues	-	-	-
Settlements	-	7,393	(210)
Transfers into Level 3[1]	24,736	22,651	-
Transfers out of Level 3[1]	(4,615)	-	-
Ending balance	₩ 1,571,370	₩ 23,997	₩ (2,021)

[1] Changes in levels for the financial instruments occurred due to the change in the availability of observable market data.

In relation to changes in Level 3 of the fair value hierarchy, total gains or losses recognized in profit or loss for the period, and total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period in the statements of comprehensive income for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	
	Net losses from financial investments at fair value through profit or loss	Other operating income(losses)
Total gains or losses included in profit or loss for the period	₩ (6,249)	₩ 207,164
Total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period	(3,035)	(15,372)

(In millions of Korean won)	2014	
	Net income(losses) from financial investments at fair value through profit or loss	Other operating losses
Total gains or losses included in profit or loss for the period	₩ (1,393)	₩ (106,070)
Total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period	7,533	(112,164)

6.2.3 Sensitivity analysis of changes in unobservable inputs

Information about fair value measurements using unobservable inputs as of December 31, 2015, is as follows:

(In millions of Korean won)

	Fair value	Valuation techniques	Inputs	Unobservable inputs	Range of unobservable inputs (%)	Relationship of unobservable inputs to fair value
Financial assets						
Financial assets designated at fair value through profit or loss						
Derivative linked securities	₩ 70,198	MonteCarlo Simulation	Price of the underlying asset, interest rate, dividend yield, volatility of the underlying asset, correlation of the underlying assets	Volatility of the underlying asset	19.95 ~ 31.19	Higher the volatility, higher the fair value fluctuation
				Correlation of the underlying assets	26.37 ~ 53.50	Higher the correlation, higher the fair value fluctuation
Derivatives held for trading						
Stock and index	321	Binomial model	Price of the underlying asset, interest rate, volatility of the underlying asset, dividend yield	Volatility of the underlying asset	17.10	Higher the volatility, higher the fair value fluctuation
Currency and interest	264	DCF model	Interest rate, foreign exchange rate, loss given default	Loss given default	5.56 ~ 100.00	Higher the loss rate, decrease the fair value
Others	12	MonteCarlo Simulation	Stock price, interest rate, volatility of the stock price, volatility of the interest rate	Volatility of the stock price	40.02	Higher the volatility, higher the fair value fluctuation
				Volatility of the interest rate	0.45	Higher the volatility, higher the fair value fluctuation
Derivatives held for hedging						
Interest	1,211	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rate, volatility of the underlying asset	Volatility of the underlying asset	5.96	Higher the volatility, higher the fair value fluctuation
Available-for-sale financial assets						
Equity securities	1,553,539	DCF Model, Comparable Company Analysis, Risk Adjusted Discount Rate Method	Growth rate, discount rate, volatilities of real estate price, liquidation value , recovery rate of receivables' acquisition cost	Growth rate	0.00 ~ 3.00	Higher the growth rate, higher the fair value
				Discount rate	1.72 ~ 20.65	Lower the discount rate, higher the fair value
				Liquidation value	0.00	Higher the liquidation value, higher the fair value
				Recovery rate of receivables' acquisition cost	155.83	Higher the recovery rate of receivables' acquisition cost, higher the fair value
	₩ 1,625,545					
Financial liabilities						
Derivatives held for trading						
Stock and index	₩ 2,143	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rate, volatility of the underlying asset, correlation of the underlying assets(Correlation of rates of return on stocks), dividend yield	Volatility of the underlying asset	31.00 ~ 33.80	Higher the volatility, higher the fair value fluctuation
				Correlation of rates of return on stocks	11.96	Higher the correlation, higher the fair value fluctuation
Others	14	MonteCarlo Simulation	Stock price, interest rate, volatility of the stock price, volatility of the interest rate	Volatility of the stock price	40.02	Higher the volatility, higher the fair value fluctuation

				Volatility of the interest rate	0.45	Higher the volatility, higher the fair value fluctuation
Derivatives held for hedging						
Interest	497	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rate, volatility of the underlying asset	Volatility of the underlying asset	3.93	Higher the volatility, higher the fair value fluctuation
	₩ 2,654					

Information about fair value measurements using unobservable inputs as of December 31, 2014, is as follows:

	Fair value	Valuation techniques	Inputs	Unobservable inputs	Range of unobservable inputs (%)	Relationship of unobservable inputs to fair value
Financial assets						
Derivatives held for trading						
Stock and index	₩ 29,031	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rate, volatility of the underlying asset, correlation of the underlying assets(Correlation of rates of return on stocks), dividend yield	Volatility of the underlying asset	24.20 ~ 45.82	Higher the volatility, higher the fair value fluctuation
				Correlation of rates of return on stocks	-3.27 ~ 52.23	Higher the correlation, higher the fair value fluctuation
Currency and interest	2,995	DCF model	Interest rate, foreign exchange rate, loss given default	Loss given default	6.78 ~ 90.56	Higher the loss rate, decrease the fair value
Derivatives held for hedging						
Interest	260	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, Interest rate, volatility of the underlying asset	Volatility of the underlying asset	3.91	Higher the volatility, higher the fair value fluctuation
Available-for-sale financial assets						
Equity securities	1,571,370	DCF Model, Comparable Company Analysis, Risk Adjusted Discount Rate Method	Growth rate, discount rate, volatilities of real estate price, liquidation value , discount rate of cash flows from rent , recovery rate of receivables' acquisition cost	Growth rate	0.00 ~ 3.00	Higher the growth rate, higher the fair value
				Discount rate	2.29 ~ 21.55	Lower the discount rate, higher the fair value
				Volatilities of real estate price	1.10	Higher real estate price, higher the fair value
				Liquidation value	0.00	Higher the liquidation value, higher the fair value
				Discount rate of cash flows from rent	6.89	Lower the discount rate of cash flows from rent, higher the fair value
				Recovery rate of receivables' acquisition cost	155.83	Higher the recovery rate of receivables' acquisition cost, higher the fair value
	₩ 1,603,656					
Financial liabilities						
Derivatives held for trading						
Stock and index	₩ 8,029	DCF model, Closed Form, FDM, Monte Carlo	Price of the underlying asset, interest rate, volatility of the underlying asset, correlation of the underlying assets(rates of return	Volatility of the underlying asset	25.13 ~ 41.79	Higher the volatility, higher the fair value fluctuation
				Correlation of rates	-3.83 ~	Higher the correlation,

		Simulation	on stocks), dividend yield	of return on stocks	68.20	higher the fair value fluctuation
Derivatives held for hedging						
Interest	2,281	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rate, volatility of the underlying asset	Volatility of the underlying asset	2.35 ~ 3.91	Higher the volatility, higher the fair value fluctuation
	₩ 10,310					

Sensitivity analysis of changes in unobservable inputs

Sensitivity analysis of financial instruments is performed to measure favorable and unfavorable changes in the fair value of financial instruments which are affected by unobservable parameters, using a statistical technique. When the fair value is affected by more than two input parameters, the amounts represent the most favorable or unfavorable. Amongst Level 3 financial instruments subject to sensitivity analysis, there are derivative linked securities, equity-related derivatives, currency-related derivatives, interest rate-related derivatives and other derivatives whose fair value changes are recognized in profit or loss as well as equity securities and private equity funds whose fair value changes are recognized in profit or loss or other comprehensive income and loss.

Sensitivity analyses by type of instrument as a result of varying input parameters are as follows:

(In millions of Korean won)	2015	
	Recognition in profit or loss	
	Favorable changes	**Unfavorable changes**
Financial assets		
Financial assets designated at fair value through profit or loss		
Derivative linked securities[1]	₩ 1,697	₩ (1,507)
Derivatives held for trading[2]	337	(10)
Derivatives held for hedging[2]	81	(71)
Available-for-sale financial assets[3]	-	-
	₩ 2,115	₩ (1,588)
Financial liabilities		
Derivatives held for trading[2]	8	(13)
Derivatives held for hedging[2]	17	(16)
	₩ 25	₩ (29)

	2015			
(In millions of Korean won)	Other comprehensive income or loss			
	Favorable changes		Unfavorable changes	
Financial assets				
Available-for-sale financial assets[3]	₩	143,678	₩	(72,762)

	2014			
(In millions of Korean won)	Recognition in profit or loss			
	Favorable changes		Unfavorable changes	
Financial assets				
Derivatives held for trading[2]	₩	310	₩	(307)
Derivatives held for hedging[2]		17		(15)
Available-for-sale financial assets[3]		-		-
	₩	327	₩	(322)
Financial liabilities				
Derivatives held for trading[2]	₩	535	₩	(535)
Derivatives held for hedging[2]		86		(76)
	₩	621	₩	(611)

	2014			
(In millions of Korean won)	Other comprehensive income or loss			
	Favorable changes		Unfavorable changes	
Financial assets				
Available-for-sale financial assets[3]	₩	360,970	₩	(136,378)

[1] For derivative linked securities, the changes in fair value are calculated by shifting principal unobservable input parameters such as the volatility of the underlying asset and the correlation of the underlying assets by ± 10%.

[2] For stock and index-related derivatives, the changes in fair value are calculated by shifting principal unobservable input parameters such as the correlation of rates of return on stocks and the volatility of the underlying asset by ± 10%. For foreign currency derivatives, the changes in fair value are calculated by shifting the unobservable input parameters, such as the loss given default ratio by ± 1%. For interest rate-related derivatives, the changes in fair value are calculated by shifting the unobservable input parameters such as the correlation of the interest rates or the volatility of the underlying asset by ± 10%.

[3] For equity securities, the changes in fair value are calculated by shifting principal unobservable input parameters such as correlation between growth rate (0~0.5%) and discount rate, or liquidation value (-1~1%) and discount rate, or recovery rate of receivables' acquisition cost (-1~1%). Sensitivity of fair values to unobservable parameters of private equity fund is practically impossible, but in the case of equity fund composed of real estates, the changes in fair value are calculated by shifting correlation between discount rate (-1~1%) and volatilities of real estate price (-1~1%).

6.2.4 Day one gain or loss

If the Group uses a valuation technique that incorporates data not obtained from observable markets for the fair value at initial recognition of financial instruments, there could be a difference between the transaction price and the amount determined using that valuation technique. In these circumstances, the fair value of financial instruments is recognized as the transaction price and the difference is deferred and not recognized in profit or loss, and is amortized by using the straight-line method over the life of the financial instrument. If the fair value of the financial instruments is subsequently determined using observable market inputs, the remaining deferred amount is recognized in profit or loss.

The aggregate difference yet to be recognized in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference are as follows:

(In millions of Korean won)	2015	2014
Balance at the beginning of the period (A)	₩ 187	₩ 1,330
New transactions (B)	-	-
Amounts recognized in profit or loss during the period (C= a+b)	(178)	(1,143)
a. Amortization	(20)	(73)
b. Settlement	(158)	(1,070)
Balance at the end of the period (A+B+C)	₩ 9	₩ 187

6.3 Carrying amounts of financial instruments by category

Financial assets and liabilities are measured at fair value or amortized cost. The carrying amounts of financial assets and liabilities by category as of December 31, 2015, are as follows:

(In millions of Korean won)

	Financial assets at fair value through profit or loss						
	Held for trading	Financial assets designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Derivatives held for hedging	Total
Financial assets							
Cash and due from financial institutions	₩ -	₩ -	₩ 14,562,990	₩ -	₩ -	₩ -	₩ 14,562,990
Financial assets at fair value through profit or loss	6,417,419	70,198	-	-	-	-	6,487,617
Derivatives	2,093,458	-	-	-	-	92,552	2,186,010
Loans	-	-	222,738,064	-	-	-	222,738,064
Financial investments	-	-	-	21,163,192	11,748,794	-	32,911,986
Other financial assets	-	-	6,887,727	-	-	-	6,887,727
	₩ 8,510,877	₩ 70,198	₩244,188,781	₩21,163,192	₩11,748,794	₩ 92,552	₩285,774,394

(In millions of Korean won)

	Financial liabilities at fair value through profit or loss	Financial liability at	Derivatives	
	Held for trading	amortized cost	held for hedging	Total
Financial liabilities				
Financial liabilities at fair value through profit or loss	₩ 69,465	₩ -	₩ -	₩ 69,465
Derivatives	2,116,766	-	21,957	2,138,723
Deposits	-	224,333,507	-	224,333,507
Debts	-	14,291,815	-	14,291,815
Debentures	-	15,949,134	-	15,949,134
Other financial liabilities	-	9,612,261	-	9,612,261
	₩ 2,186,231	₩ 264,186,717	₩ 21,957	₩ 266,394,905

The carrying amounts of financial assets and liabilities by category as of December 31, 2014, are as follows:

(In millions of Korean won)

	Financial assets at fair value through profit or loss					
	Held for trading	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Derivatives held for hedging	Total
Financial assets						
Cash and due from financial institutions	₩ -	₩ 13,973,510	₩ -	₩ -	₩ -	₩ 13,973,510
Financial assets at fair value through profit or loss	7,520,471	-	-	-	-	7,520,471
Derivatives	1,800,664	-	-	-	109,553	1,910,217
Loans	-	211,525,560	-	-	-	211,525,560
Financial investments	-	-	19,134,391	10,124,136	-	29,258,527
Other financial assets	-	6,529,032	-	-	-	6,529,032
	₩ 9,321,135	₩ 232,028,102	₩19,134,391	₩10,124,136	₩ 109,553	₩270,717,317

(In millions of Korean won)

	Financial liabilities at fair value through profit or loss			
	Held for trading	Financial liability at amortized cost	Derivatives held for hedging	Total
Financial liabilities				
Financial liabilities at fair value through profit or loss	₩ 51,650	₩ -	₩ -	₩ 51,650
Derivatives	1,755,674	-	3,425	1,759,099
Deposits	-	211,611,432	-	211,611,432
Debts	-	14,297,460	-	14,297,460
Debentures	-	15,250,464	-	15,250,464
Other financial liabilities	-	9,344,847	-	9,344,847
	₩ 1,807,324	₩ 250,504,203	₩ 3,425	₩ 252,314,952

6.4 Transfer of financial assets

6.4.1 Transferred financial assets that are derecognized in their entirety

The Group transferred loans and other financial assets that are derecognized in their entirety to SPEs, while the maximum exposure to loss(carrying amount) from its continuing involvement in the derecognized financial assets as of December 31, 2015 and 2014, are as follows :

(In millions of Korean won)	2015			
	Type of continuing involvement	**Classification of financial instruments**	**Carrying amount of continuing involvement in statement of financial position**	**Fair value of continuing involvement in statement of financial position**
EAK ABS Ltd.	Subordinated debt	Available-for-sale financial assets	₩ 48	₩ 48
AP 1st Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	10,335	10,335
Discovery 1st Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	10,448	10,448
EAK 2nd Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	22,359	22,359
FK 1411 ABS Ltd.	Subordinated debt	Available-for-sale financial assets	41,810	41,810
AP 3B ABS Ltd.[1]	Senior debt	Loans and receivables	11,496	11,548
	Subordinated debt	Available-for-sale financial assets	27,377	27,377
			₩ 123,873	₩ 123,925

[1] Recognized net gain from transferring loans to the SPEs amounts to ₩ 10,639 million.

[2] In addition to the above, the recovered portion in excess of the consideration paid attributable to adjustments based on the agreement with the National Happiness Fund for non-performing loans amounts to ₩ 4,281 million as of December 31, 2015.

(In millions of Korean won)	2014			
	Type of continuing involvement	**Classification of financial instruments**	**Carrying amount of continuing involvement in statement of financial position**	**Fair value of continuing involvement in statement of financial position**
KR ABS Ltd.	Subordinated debt	Available-for-sale financial assets	₩ 4,921	₩ 4,921
KR 2nd Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	22,219	22,219
EAK ABS Ltd.	Subordinated debt	Available-for-sale financial assets	11,211	11,211
AP 1st Securitization Specialty Co., Ltd.	Senior debt	Loans and receivables	9,762	9,842
	Subordinated debt	Available-for-sale financial assets	17,346	17,346
Discovery 1st Securitization Specialty Co., Ltd.	Senior debt	Loans and receivables	1,175	1,194
	Subordinated debt	Available-for-sale financial assets	22,591	22,591
EAK 2nd Securitization Specialty Co., Ltd. [1]	Senior debt	Loans and receivables	19,806	20,026
	Subordinated debt	Available-for-sale financial assets	38,207	38,207
FK 1411 ABS Ltd. [2]	Senior debt	Loans and receivables	44,966	44,917
	Subordinated debt	Available-for-sale financial assets	47,600	47,600
			₩ 239,804	₩ 240,074

[1] Recognized net gain from transferring loans to the SPEs amounts to ₩ 6,924 million.

[2] Recognized net loss from transferring loans to the SPEs amounts to ₩ 27,365 million.

[3] In addition to the above, the recovered portion in excess of the consideration paid attributable to adjustments based on the agreement with the National Happiness Fund for non-performing loans amounts to ₩ 3,145 million in 2014.

6.4.2 Securities under repurchase agreements and loaned securities

The Group continues to recognize the financial assets related to repurchase agreements and securities lending transactions on the statements of financial position since those transactions are not qualified for derecognition even though the Group transfers the financial assets. A financial asset is sold under a reverse repurchase agreement to repurchase the same asset at a fixed price, or loaned under a securities lending agreement to be returned as the same asset. Thus, the Group substantially retains all the risks and rewards of ownership of the financial asset. The amounts of transferred assets and related liabilities as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	**2015**	
	Carrying amount of transferred asset	**Carrying amount of related liabilities**
Securities under repurchase agreements	₩ 608,568	₩ 568,486
Loaned securities	200,389	-
Government and public bonds	200,389	-
	₩ 808,957	₩ 568,486

(In millions of Korean won)	**2014**	
	Carrying amount of transferred asset	**Carrying amount of related liabilities**
Securities under repurchase agreements	₩ 164,382	₩ 148,869
Loaned securities	59,120	-
Government and public bonds	59,120	-
	₩ 223,502	₩ 148,869

6.5 Offsetting financial assets and financial liabilities

The Group enters into International Swaps and Derivatives Association ("ISDA") master netting agreements and other similar netting arrangements with the Group's derivative and spot exchange counterparties. Similar netting agreements are also entered into with the Group's reverse repurchase, securities and others. Pursuant to these agreements, in the event of default by one party, contracts are to be terminated and receivables and payables are to be offset. Further, as the law allows for the right to offset, domestic uncollected receivables balances and domestic accrued liabilities balances are shown in its net settlement balance in the statement of financial position.

The details of financial assets subject to offsetting, enforceable master netting arrangements or similar agreements as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015					
				Related amounts not offset in the statement of financial position		
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivatives held for trading	₩ 2,093,125	₩ -	₩ 2,093,125	₩ (1,594,838)	₩ (22,220)	₩ 476,067
Derivatives held for hedging	92,552	-	92,552	(15,650)	-	76,902
Receivable spot exchange	2,841,945	-	2,841,945	(2,840,480)	-	1,465
Reverse repurchase, securities borrowing and similar agreements	2,028,200	-	2,028,200	(2,028,200)	-	-
Other financial instruments	20,125,762	(17,987,341)	2,138,421	-	-	2,138,421
	₩ 27,181,584	₩ (17,987,341)	₩ 9,194,243	₩ (6,479,168)	₩ (22,220)	₩ 2,692,855

(In millions of Korean won)	2014					
				Related amounts not offset in the statement of financial position		
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivatives held for trading	₩ 1,798,280	₩ -	₩ 1,798,280	₩ (1,472,239)	₩ (1,635)	₩ 324,406
Derivatives held for hedging	109,553	-	109,553	(15,688)	-	93,865
Receivable spot exchange	2,343,308	-	2,343,308	(2,342,116)	-	1,192
Reverse repurchase, securities borrowing and similar agreements	3,529,900	-	3,529,900	(3,529,900)	-	-
Other financial instruments	18,249,521	(16,161,647)	2,087,874	-	-	2,087,874
	₩ 26,030,562	₩ (16,161,647)	₩ 9,868,915	₩ (7,359,943)	₩ (1,635)	₩ 2,507,337

The details of financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015					
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
Derivatives held for trading	₩ 2,116,486	₩ -	₩ 2,116,486	₩ (1,618,259)	₩ (4,633)	₩ 493,594
Derivatives held for hedging	21,957	-	21,957	(14,417)	-	7,540
Payable spot exchange	2,842,407	-	2,842,407	(2,840,480)	-	1,927
Repurchase, securities lending and similar agreements[1]	568,486	-	568,486	(568,486)	-	-
Other financial instruments	18,105,992	(17,987,341)	118,651	(118,651)	-	-
	₩ 23,655,328	₩ (17,987,341)	₩ 5,667,987	₩ (5,160,293)	₩ (4,633)	₩ 503,061

(In millions of Korean won)	2014					
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
Derivatives held for trading	₩ 1,755,221	₩ -	₩ 1,755,221	₩ (1,316,268)	₩ -	₩ 438,953
Derivatives held for hedging	3,425	-	3,425	(3,013)	-	412
Payable spot exchange	2,343,234	-	2,343,234	(2,342,116)	-	1,118
Repurchase, securities lending and similar agreements[1]	148,870	-	148,870	(148,870)	-	-
Other financial instruments	16,284,444	(16,161,647)	122,797	(122,797)	-	-
	₩ 20,535,194	₩ (16,161,647)	₩ 4,373,547	₩ (3,933,064)	₩ -	₩ 440,483

[1] Includes repurchase agreements sold to customers.

7. Due from financial institutions

The details of due from financial institutions as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

		Financial Institutions	Interest rate(%)	2015	2014
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	0.00 ~ 1.50	₩ 6,376,961	₩ 6,283,230
	Due from banking institutions	KEB Hana Bank and others	0.00 ~ 2.60	705,670	585,028
	Due from others	KB Investment & Securities Co., Ltd. and others	0.00 ~ 1.00	2,819,387	3,013,288
				9,902,018	9,881,546
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	Bank of Korea and others	-	1,211,342	898,437
	Time deposits in foreign currencies	KEB Hana Bank and others	0.00 ~ 4.79	941,986	613,153
	Due from others	Bank of Japan and others	-	36,948	36,169
				2,190,276	1,547,759
				₩ 12,092,294	₩ 11,429,305

Restricted due from financial institutions as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

		Financial Institutions	2015	2014	Reason for restriction
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	₩ 6,376,961	₩ 6,283,230	Bank of Korea Act
	Due from banking institutions	KEB Hana Bank and others	-	279,200	Agreement for allocation of deposit
	Due from others	Morgan Stanley Bank International Ltd and others	5,119	1,668	Derivatives margin account and others
			6,382,080	6,564,098	
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	Bank of Korea and others	501,379	293,067	Bank of Korea Act and others
	Time deposits in foreign currencies	China Merchants Bank NY Branch	17,580	16,488	New York State Banking Law
	Due from others	Samsung Futures Inc. and others	4,868	4,022	Derivatives margin account and others
			523,827	313,577	
			₩ 6,905,907	₩ 6,877,675	

8. Assets pledged as collateral

The details of assets pledged as collateral as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

		2015	
Assets pledged	**Pledgee**	**Carrying amount**	**Reason for the pledge**
Financial assets held for trading	Korea Securities Depository and others	₩ 53,680	Repurchase agreements
	KB Investment Co., Ltd.	1,021	Derivatives transactions
		54,701	
Available-for-sale financial assets	Korea Securities Depository and others	481,937	Repurchase agreements
	Bank of Korea	594,020	Borrowings from Bank of Korea
	Bank of Korea	61,410	Settlement risk of Bank of Korea
	Deutshe Bank AG. and others	412,475	Derivatives transactions
	Others	5,604	Others
		1,555,446	
Held-to-maturity financial assets	Korea Securities Depository and others	101,942	Repurchase agreements
	Bank of Korea	820,872	Borrowings from Bank of Korea
	Bank of Korea	922,733	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others	200,625	Derivatives transactions
	Others	174,984	Others
		2,221,156	
Mortgage loans	Others	1,745,823	Covered Bond
		₩ 5,577,126	

(In millions of Korean won)

		2014		
Assets pledged	**Pledgee**	**Carrying amount**		**Reason for the pledge**
Financial assets held for trading	Korea Securities Depository and others	₩	82,990	Repurchase agreements
	Samsung Futures Inc. and others		9,861	Derivatives transactions
	Others		17,864	Settlement of Korea Exchange and others
			110,715	
Available-for-sale financial assets	Samsung Futures Inc. and others		3,308	Derivatives transactions
Held-to-maturity financial assets	Korea Securities Depository and others		1,460,932	Repurchase agreements
	Bank of Korea		993,853	Borrowings from Bank of Korea
	Bank of Korea		1,440,821	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others		339,107	Derivatives transactions
	Others		254,980	Others
			4,489,693	
		₩	4,603,716	

The fair value of collateral available to sell or repledge, and collateral sold or repledged, regardless of debtor's default as of December 31, 2015 and 2014, is as follows:

(In millions of Korean won)	2015			
	Fair value of collateral		**Fair value of collateral sold or repledged**	
Securities	₩	2,045,575	₩	-

(In millions of Korean won)	2014			
	Fair value of collateral		**Fair value of collateral sold or repledged**	
Securities	₩	3,598,732	₩	-

9. Derivative financial instruments and hedge accounting

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

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

- Interest rate swaps, relating to interest rate risks in Korean won.
- Cross-currency swaps, forwards and options relating to foreign exchange rate risks.
- Stock price index options linked with the KOSPI index.

In particular, the Group applies fair value hedge accounting using cross currency swaps, interest rate swaps and others to hedge the risk of changes in fair values due to the changes in interest rates and foreign exchange rates of structured debentures in Korean won, debentures in foreign currencies, structured deposits in Korean won, and structured deposits in foreign currencies. In addition, the Group applies net investment hedge accounting by designating debentures in foreign currencies as hedging instruments to hedge foreign exchange risks on net investments in foreign operations.

The details of derivative financial instruments for trading as of December 31, 2015 and 2014, are as follows:

	2015		
(In millions of Korean won)	**Notional amount**	**Assets**	**Liabilities**
Interest rate			
Futures[1]	₩ 528,941	₩ -	₩ -
Swaps	91,057,388	909,024	889,940
Options	5,874,500	73,724	133,087
	97,460,829	982,748	1,023,027
Currency			
Forwards	33,674,825	511,513	304,877
Futures[1]	576,263	-	-
Swaps	25,303,179	596,668	782,912
Options	373,241	2,196	3,526
	59,927,508	1,110,377	1,091,315
Stock and index			
Futures[1]	26,588	-	-
Swaps	-	-	-
Options	40,571	321	2,410
	67,159	321	2,410

Others	703,200	12	14
	₩ 158,158,696	₩ 2,093,458	₩ 2,116,766

(In millions of Korean won)	2014		
	Notional amount	**Assets**	**Liabilities**
Interest rate			
Futures[1]	₩ 290,290	₩ -	₩ -
Swaps	101,441,724	923,094	956,130
Options	8,398,000	86,277	128,185
	110,130,014	1,009,371	1,084,315
Currency			
Forwards	21,256,930	340,246	214,759
Futures[1]	554,794	-	-
Swaps	18,430,843	415,842	441,696
Options	616,977	6,057	6,078
	40,859,544	762,145	662,533
Stock and index			
Futures[1]	76,298	-	-
Swaps	45,135	26,648	1,166
Options	114,617	2,500	7,660
	236,050	29,148	8,826
	₩ 151,225,608	₩ 1,800,664	₩ 1,755,674

[1] A gain or loss from daily mark-to-market futures is reflected in the margin accounts.

Fair value hedge

The details of derivatives designated as fair value hedging instruments as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015		
	Notional amount	**Assets**	**Liabilities**
Interest rate			
Swaps	₩ 3,108,538	₩ 91,341	₩ 21,460
Other	140,000	1,211	497
	₩ 3,248,538	₩ 92,552	₩ 21,957

(In millions of Korean won)	2014		
	Notional amount	**Assets**	**Liabilities**
Interest rate			
Swaps	₩ 2,179,779	₩ 109,293	₩ 1,144
Other	140,000	260	2,281
	₩ 2,319,779	₩ 109,553	₩ 3,425

Gains and losses from fair value hedging instruments and hedged items attributable to the hedged risk for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	**2015**	**2014**
Losses on hedging instruments	₩ (39,381)	₩ (28,269)
Gains on the hedged item attributable to the hedged risk	40,002	42,393
	₩ 621	₩ 14,124

Hedges of a net investment in a foreign operation

The Group applies hedge accounting by designating non-derivative financial instruments as hedging instruments to net investments in foreign operations for year ended December 31, 2015.

The effective portion of gain(loss) on hedging instruments recognized in other comprehensive income(loss) is as follows:

(In millions of Korean won)	**2015**
Other comprehensive loss	₩ (33,610)
Tax effect	8,134
Other comprehensive loss after tax	₩ (25,476)

The fair value of non-derivative financial instruments designated as hedging instruments is as follows:

(In millions of Korean won)	**2015**
Debentures in foreign currencies	₩ 582,205

10. Loans

Loans as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Loans	₩ 224,189,374	₩ 212,907,660
Deferred loan origination fees and costs	574,569	545,497
Allowances	(2,025,879)	(1,927,597)
Carrying amount	₩ 222,738,064	₩ 211,525,560

Loans to banks as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Loans	₩ 6,779,962	₩ 6,208,391
Allowances	(39)	-
Carrying amount	₩ 6,779,923	₩ 6,208,391

Loans to customers other than banks as of December 31, 2015 and 2014, consist of:

(In millions of Korean won)	2015		
	Retail	Corporate	Total
Loans in Korean won	₩ 115,924,172	₩ 91,272,391	₩ 207,196,563
Loans in foreign currencies	42,413	2,659,902	2,702,315
Domestic import usance bills	-	3,445,301	3,445,301
Off-shore funding loans	-	584,914	584,914
Call loans	-	198,045	198,045
Bills bought in Korean won	-	5,257	5,257
Bills bought in foreign currencies	-	2,812,217	2,812,217
Guarantee payments under payment guarantee	-	26,129	26,129
Reverse repurchase agreements	-	228,001	228,001
Privately placed bonds	-	785,239	785,239
	115,966,585	102,017,396	217,983,981
Proportion (%)	53.20	46.80	100.00
Allowances	(432,414)	(1,593,426)	(2,025,840)
	₩ 115,534,171	₩ 100,423,970	₩ 215,958,141

(In millions of Korean won)	2014		
	Retail	**Corporate**	**Total**
Loans in Korean won	₩ 112,193,456	₩ 84,006,216	₩ 196,199,672
Loans in foreign currencies	50,047	2,574,041	2,624,088
Domestic import usance bills	-	3,693,951	3,693,951
Off-shore funding loans	-	664,794	664,794
Call loans	-	290,243	290,243
Bills bought in Korean won	-	6,678	6,678
Bills bought in foreign currencies	-	1,958,251	1,958,251
Guarantee payments under payment guarantee	-	12,975	12,975
Reverse repurchase agreements	-	1,079,900	1,079,900
Privately placed bonds	-	714,214	714,214
	112,243,503	95,001,263	207,244,766
Proportion (%)	54.16	45.84	100.00
Allowances	(476,974)	(1,450,623)	(1,927,597)
	₩ 111,766,529	₩ 93,550,640	₩ 205,317,169

The changes in deferred loan origination fees and costs for the years ended December 31, 2015 and 2014, are as follows:

	2015				
(In millions of Korean won)	**Beginning**	**Increase**	**Decrease**	**Other**	**Ending**
Deferred loan origination costs					
Loans in Korean won	₩ 572,108	₩ 422,396	₩ 399,986	₩ -	₩ 594,518
Other origination costs	598	491	619	-	470
	572,706	422,887	400,605	-	594,988
Deferred loan origination fees					
Loans in Korean won	21,993	3,091	9,112	-	15,972
Other origination fees	5,216	1,929	2,707	9	4,447
	27,209	5,020	11,819	9	20,419
	₩ 545,497	₩ 417,867	₩ 388,786	₩ (9)	₩ 574,569

	2014				
(In millions of Korean won)	**Beginning**	**Increase**	**Decrease**	**Other**	**Ending**
Deferred loan origination costs					
Loans in Korean won	₩ 495,619	₩ 355,270	₩ 278,781	₩ -	₩ 572,108
Other origination costs	378	1,100	880	-	598
	495,997	356,370	279,661	-	572,706
Deferred loan origination fees					
Loans in Korean won	25,064	4,579	7,650	-	21,993
Other origination fees	7,671	1,073	3,535	7	5,216
	32,735	5,652	11,185	7	27,209
	₩ 463,262	₩ 350,718	₩ 268,476	₩ (7)	₩ 545,497

11. Allowances for Loan Losses

The changes in the allowances for loan losses for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015					
	Retail		Corporate		Total	
Beginning	₩	476,974	₩	1,450,623	₩	1,927,597
Written-off		(295,642)		(683,991)		(979,633)
Recoveries from written-off loans		177,075		156,531		333,606
Sale		(4,051)		(45,619)		(49,670)
Other changes		(1,667)		101		(1,566)
Provision[1]		79,725		715,820		795,545
Ending	₩	432,414	₩	1,593,465	₩	2,025,879

(In millions of Korean won)

	2014					
	Retail		Corporate		Total	
Beginning	₩	572,286	₩	1,817,973	₩	2,390,259
Written-off		(521,422)		(1,068,490)		(1,589,912)
Recoveries from written-off loans		132,296		257,972		390,268
Sale		(6,726)		(61,255)		(67,981)
Other changes		(6,555)		(68,443)		(74,998)
Provision[1]		307,095		572,866		879,961
Ending	₩	476,974	₩	1,450,623	₩	1,927,597

[1] Provision for credit losses in statements of comprehensive income also include provision(reversal) for unused commitments and guarantees (Note 22), provision(reversal) for financial guarantee contracts (Note 22), and provision for other financial assets (Note 17).

12. Financial assets at fair value through profit or loss and Financial Investments

The details of financial assets at fair value through profit or loss and financial investments as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)		2015		2014
Financial assets held for trading				
Debt securities				
Government and public bonds	₩	1,301,425	₩	2,035,150
Financial bonds		3,133,610		3,581,035
Corporate bonds		1,438,302		1,204,083
Asset-backed securities		218,496		282,011
Others		195,636		266,504
Equity securities				
Stocks		31,397		60,122
Beneficiary certificates		29,493		40,221
Others		69,060		51,345
		6,417,419		7,520,471
Financial assets designated at fair value through profit or loss				
Derivative linked securities		70,198		-
Total financial assets at fair value through profit or loss	₩	6,487,617	₩	7,520,471
Available-for-sale financial assets				
Debt securities				
Government and public bonds	₩	3,202,350	₩	4,214,383
Financial bonds		6,376,869		6,259,941
Corporate bonds		3,533,586		4,743,295
Asset-backed securities		5,180,728		1,198,281
Equity securities				
Stocks		1,440,483		1,788,178
Equity investments		41,314		45,578
Beneficiary certificates		1,387,362		884,235
Others		500		500
		21,163,192		19,134,391
Held-to-maturity financial assets				
Debts securities				
Government and public bonds		1,870,481		2,724,716
Financial bonds		2,024,444		1,047,049
Corporate bonds		3,709,968		5,880,095
Asset-backed securities		4,143,901		472,276
		11,748,794		10,124,136
Total financial investments	₩	32,911,986	₩	29,258,527

The impairment losses and the reversal of impairment losses in financial investment for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015		
	Impairment	**Reversal**	**Net**
Available-for-sale financial assets	₩ (216,027)	₩ -	₩ (216,027)
	₩ (216,027)	₩ -	₩ (216,027)

(In millions of Korean won)

	2014		
	Impairment	**Reversal**	**Net**
Available-for-sale financial assets	₩ (180,784)	₩ -	₩ (180,784)
	₩ (180,784)	₩ -	₩ (180,784)

13. Investments in associates

Investments in associates as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015					
	Ownership (%)	**Acquisition cost**	**Share of net asset amount**	**Carrying amount**	**Industry**	**Location**
Balhae Infrastructure Fund[1]	12.61	₩125,462	₩128,275	₩128,275	Investment finance	Korea
Korea Credit Bureau Co., Ltd.[1]	9.00	4,500	4,580	4,580	Credit information	Korea
UAMCO., Ltd.[1]	17.50	85,050	125,822	129,707	Other finance	Korea
JSC Bank CenterCredit						
Ordinary shares[2]	29.56	954,104	(21,990)	-	Banking	Kazakhstan
Preferred shares[2]	93.15					
KB12-1 Venture Investment Partnership[3]	80.00	40,000	50,670	50,670	Investment finance	Korea
KoFC KBIC Frontier Champ 2010-5(PEF)	30.00	16,131	15,537	15,169	Investment finance	Korea
United PF 1st Recovery Private Equity Fund[1]	17.73	172,441	187,596	183,117	Other finance	Korea
Shinla Construction Co., Ltd.	20.17	-	(516)	-	Specialty construction	Korea
KB GwS Private Securities Investment Trust	20.93	89,124	102,530	101,274	Investment finance	Korea
Incheon Bridge Co., Ltd.[1]	14.99	24,677	(1,879)	-	Operation of highways and related facilities	Korea
KoFC Posco Hanhwa KB shared growth Private Equity Fund	20.00	24,760	23,272	24,760	Investment finance	Korea
Future Planning KB Start-up Creation Fund[3]	50.00	12,000	11,860	12,000	Investment finance	Korea
Terra Corporation	24.06	-	37	21	Manufacture of fabricated and processed metal products	Korea
MJT&I Corp.[5]	22.89	-	(580)	149	Wholesale of other merchandise	Korea
Jungdong Steel Co., Ltd.[5]	42.65	-	86	33	Wholesale of primary metal	Korea
Doosung Metal Co., Ltd[5]	26.49	-	(47)	-	Manufacture of metal door, windows, shutter and relevant products	Korea
Myeongwon Tech Co., Ltd.[5]	25.62	-	(447)	-	Manufacture of other automotive parts	Korea
Shinhwa Underwear Co., Ltd[5]	26.05	-	(184)	56	Manufacture of underwear and sleepwear	Korea
DPAPS Co.,Ltd.[5]	38.62	-	339	-	Wholesale of paper	Korea
EJADE Co.,Ltd.[5]	25.67	-	591	-	Wholesale of underwear	Korea
KB Star office private real estate Investment Trust No.1	21.05	20,000	20,328	20,328	Investment finance	Korea
		₩ 1,568,249	₩ 645,880	₩ 670,139		

(In millions of Korean won)	2014					
	Ownership (%)	**Acquisition cost**	**Share of net asset amount**	**Carrying amount**	**Industry**	**Location**
Balhae Infrastructure Fund[1]	12.61	₩ 122,623	₩ 125,119	₩ 125,119	Investment finance	Korea
Korea Credit Bureau Co., Ltd.[1]	9.00	4,500	4,222	4,222	Credit information	Korea
UAMCO., Ltd.[1]	17.50	85,050	114,240	121,182	Other finance	Korea
JSC Bank CenterCredit						
Ordinary shares [2]	29.56	954,104	36,763	29,279	Banking	Kazakhstan
Preferred shares[2]	93.15					
KB12-1 Venture Investment Partnership[3]	80.00	28,800	29,119	29,119	Investment finance	Korea
KoFC KBIC Frontier Champ 2010-5(PEF)	30.00	18,981	15,705	16,675	Investment finance	Korea
United PF 1st Recovery Private Equity Fund[1]	17.72	191,617	203,270	198,089	Other finance	Korea
CH Engineering Co., Ltd. [4]	41.73	-	178	20	Architectural design and related service	Korea
Shinla Construction Co., Ltd.	20.17	-	(502)	-	Specialty construction	Korea
KB GwS Private Securities Investment Trust	20.93	89,124	99,818	98,562	Investment finance	Korea
Incheon Bridge Co., Ltd. [1]	14.99	24,677	(1,716)	-	Operation of highways and related facilities	Korea
KoFC Posco Hanhwa KB shared growth Private Equity Fund	20.00	21,000	18,563	20,663	Investment finance	Korea
Future Planning KB Start-up Creation Fund[3]	50.00	4,000	3,825	4,000	Investment finance	Korea
Terra Corporation	24.06	-	(99)	-	Manufacture of fabricated and processed metal products	Korea
KB Star office private real estate Investment Trust No.1	21.05	20,000	20,402	20,402	Investment finance	Korea
		₩1,564,476	₩ 668,907	₩ 667,332		

[1] As of December 31, 2015 and 2014, the Group is represented in the governing bodies of its associates. Therefore, the Group has significant influence over the decision-making process relating to their financial and business policies.

[2] The Group determined that ordinary shares and convertible preferred shares issued by JSC Bank CenterCredit are the same in economic substance except for the voting rights, and therefore, the equity method of accounting is applied on the basis of single ownership ratio of 41.93%, calculated based on ordinary and convertible preferred shares held by the Group against the total outstanding ordinary and convertible preferred shares issued by JSC Bank CenterCredit. The fair value of ordinary shares of JSC Bank CenterCredit, reflecting the quoted market price as of December 31, 2015 and 2014, amounts to ₩ 21,863 million and ₩ 42,945 million, respectively.

[3] As of December 31, 2015 and 2014, the Group is a partner in a limited partnership and does not have the right to control over these entities.

[4] On June 23, 2015, the Group lost significant influence as the Seoul District Court approved the bankruptcy of CH Engineering Co., Ltd.

[5] The investment in associates was reclassified from available-for-sale financial assets due to termination of rehabilitation procedures.

Summarized financial information on the main associates, the carrying amount of the Group's interest in the main associates and dividends received from the main associates are as follows:

(In millions of Korean won)	2015[1]						
	Total assets	Total liabilities	Paid-in capital	Equity	Share of net asset amount	Unrealized gains and losses and others	Carrying amount
Balhae Infrastructure Fund	₩ 1,019,844	₩ 2,198	₩1,021,953	₩1,017,646	₩ 128,275	₩ -	₩ 128,275
Korea Credit Bureau Co., Ltd.	63,960	13,076	10,000	50,884	4,580	-	4,580
UAMCO., Ltd.	4,068,353	3,331,647	2,430	736,706	125,822	3,885	129,707
JSC Bank CenterCredit	4,672,327	4,710,972	546,794	(38,645)	(21,990)	21,990	-
KB12-1 Venture Investment Partnership	64,190	852	50,000	63,338	50,670	-	50,670
KoFC KBIC Frontier Champ 2010-5(PEF)	51,934	145	53,770	51,789	15,537	(368)	15,169
United PF 1st Recovery Private Equity Fund	1,088,325	30,390	973,258	1,057,935	187,596	(4,479)	183,117
KB GwS Private Securities Investment Trust	490,606	741	425,814	489,865	102,530	(1,256)	101,274
Incheon Bridge Co., Ltd.	696,390	708,926	164,621	(12,536)	(1,879)	1,879	-
KoFC Posco Hanhwa KB shared growth Private Equity Fund	117,473	1,112	123,800	116,361	23,272	1,488	24,760
Future Planning KB Start-up Creation Fund	23,725	6	24,000	23,719	11,860	140	12,000
KB Star office private real estate Investment Trust No.1	218,308	121,749	95,000	96,559	20,328	-	20,328

(In millions of Korean won)	2015[1]				
	Operating revenues	Profit (Loss)	Other comprehensive income(loss)	Comprehensive income(loss)	Dividends
Balhae Infrastructure Fund	₩ 50,214	₩ 41,594	₩ -	₩ 41,594	₩ 4,926
Korea Credit Bureau Co., Ltd.	53,184	2,005	1,098	3,103	-
UAMCO., Ltd.	452,759	68,078	(276)	67,802	-
JSC Bank CenterCredit	320,307	(159,985)	452	(159,533)	1
KB12-1 Venture Investment Partnership	14,641	10,362	2,577	12,939	-
KoFC KBIC Frontier Champ 2010-5(PEF)	10,977	9,292	(331)	8,961	-
United PF 1st Recovery Private Equity Fund	99,712	18,911	-	18,911	-
KB GwS Private Securities Investment Trust	40,454	39,454	-	39,454	5,545
Incheon Bridge Co., Ltd.	87,230	(803)	-	(803)	-
KoFC Posco Hanhwa KB shared growth Private EquityFund	8,915	(3,117)	7,978	4,861	-
Future Planning KB Start-up Creation Fund	1,379	69	-	69	-
KB Star office private real estate Investment Trust No.1	15,990	7,727	-	7,727	1,620

[1] The amounts included in the financial information of the associates are adjusted to reflect adjustments made by the Group, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

(In millions of Korean won)	2014[1]						
	Total assets	**Total liabilities**	**Paid-in capital**	**Equity**	**Share of net asset amount**	**Unrealized gains and losses and others**	**Carrying amount**
Balhae Infrastructure Fund	₩ 994,768	₩ 2,158	₩ 999,430	₩ 992,610	₩ 125,119	₩ -	₩ 125,119
Korea Credit Bureau Co., Ltd.	54,717	7,806	10,000	46,911	4,222	-	4,222
UAMCO., Ltd.	4,357,490	3,688,589	2,430	668,901	114,240	6,942	121,182
JSC Bank CenterCredit	6,278,391	6,156,255	546,794	122,136	36,763	(7,484)	29,279
KB12-1 Venture Investment Partnership	36,978	580	36,000	36,398	29,119	-	29,119
KoFC KBIC Frontier Champ 2010-5(PEF)	52,499	148	63,270	52,351	15,705	970	16,675
United PF 1st Recovery Private Equity Fund	1,187,406	40,240	1,081,400	1,147,166	203,270	(5,181)	198,089
CH Engineering Co., Ltd. [2]	1,086	659	158	427	178	(158)	20
KB GwS Private Securities Investment Trust	477,646	738	425,814	476,908	99,818	(1,256)	98,562
Incheon Bridge Co., Ltd.	727,659	739,105	164,621	(11,446)	(1,716)	1,716	-
KoFC Posco Hanhwa KB shared growth Private Equity Fund	94,731	1,917	105,000	92,814	18,563	2,100	20,663
Future Planning KB Start-up Creation Fund	8,040	390	8,000	7,650	3,825	175	4,000
KB Star office private real estate Investment Trust No.1	218,250	121,341	95,000	96,909	20,402	-	20,402

(In millions of Korean won)	2014[1]				
	Operating revenues	**Profit (Loss)**	**Other comprehensive income(loss)**	**Comprehensive income(loss)**	**Dividends**
Balhae Infrastructure Fund	₩ 53,100	₩ 44,616	₩ -	₩ 44,616	₩ 6,280
Korea Credit Bureau Co., Ltd.	46,111	114	-	114	-
UAMCO., Ltd.	548,990	57,438	-	57,438	35,041
JSC Bank CenterCredit	425,506	(22,973)	(26,987)	(49,960)	2
KB06-1 Venture Investment Partnership	570	558	(32)	526	-
KB08-1 Venture Investment Partnership	4,368	3,008	(455)	2,553	4,946
KB12-1 Venture Investment Partnership	3,302	647	230	877	-
KoFC KBIC Frontier Champ 2010-5(PEF)	16,942	957	(3,249)	(2,292)	1,938
United PF 1st Recovery Private Equity Fund	105,369	(1,962)	-	(1,962)	-
CH Engineering Co., Ltd. [2]	787	251	-	251	-
KB GwS Private Securities Investment Trust	39,207	38,207	-	38,207	7,222

Incheon Bridge Co., Ltd.	83,578	(8,185)	-	(8,185)	-
KoFC Posco Hanhwa KB shared growth Private Equity Fund	9,228	3,771	(6,337)	(2,566)	-
Future Planning KB Start-up Creation Fund	123	(330)	-	(330)	45
KB Star office private real estate Investment Trust No.1	17,413	8,585	-	8,585	1,752

[1] The amounts included in the financial information of the associates are adjusted to reflect adjustments made by the Group, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

[2] As the financial statements as of the end of December are not available, the Group applied the equity method by using the financial statements as of the end of November 2014 and adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

The changes in investments in associates for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015						
	Beginning	**Acquisition and others**	**Disposal and others**	**Dividends**	**Gains (losses)**	**Other comprehen-sive income (loss)**	**Ending**
Balhae Infrastructure Fund	₩ 125,119	₩ 2,839	₩ -	₩ (4,926)	₩ 5,243	₩ -	₩ 128,275
Korea Credit Bureau Co., Ltd.	4,222	-	-	-	259	99	4,580
UAMCO., Ltd.	121,182	-	-	-	8,525	-	129,707
JSC Bank CenterCredit	29,279	-	-	(1)	(29,278)	-	-
KB12-1 Venture Investment Partnership	29,119	11,200	-	-	8,289	2,062	50,670
KoFC KBIC Frontier Champ 2010-5(PEF)	16,675	-	(2,850)	-	336	1,008	15,169
United PF 1st Recovery Private Equity Fund	198,089	-	(19,028)	-	4,056	-	183,117
KB GwS Private Securities Investment Trust	98,562	-	-	(5,545)	8,257	-	101,274
KoFC Posco Hanhwa KB shared growth Private Equity Fund	20,663	5,960	(2,200)	-	192	145	24,760
Future Planning KB Start-up Creation Fund	4,000	8,000	-	-	-	-	12,000
CH Engineering Co., Ltd.	20	-	-	-	(20)	-	-
Terra Corporation	-	-	-	-	21	-	21
MJT&I Corp.	-	-	-	-	149	-	149
Jungdong Steel Co., Ltd.	-	-	-	-	33	-	33
Shinhwa Underwear Co., Ltd.	-	-	-	-	56	-	56
KB Star office private real estate Investment Trust No.1	20,402	-	-	(1,620)	1,546	-	20,328
	₩ 667,332	₩ 27,999	₩ (24,078)	₩ (12,092)	₩ 7,664	₩ 3,314	₩ 670,139

(In millions of Korean won)

	2014							
	Beginning	**Acquisition and others**	**Disposal and others**	**Dividends**	**Gains (losses)**	**Other comprehen-sive income (loss)**	**Impairment**	**Ending**
Balhae Infrastructure Fund	₩ 124,968	₩ 806	₩ -	₩ (6,280)	₩ 5,625	₩ -	₩ -	₩ 125,119
Korea Credit Bureau Co., Ltd.	4,185	-	-	-	37	-	-	4,222
UAMCO., Ltd.	150,826	-	-	(35,041)	5,397	-	-	121,182
JSC Bank CenterCredit	68,110	-	-	(2)	(6,278)	(32,551)	-	29,279
KB06-1 Venture Investment Partnership	861	-	(1,124)	-	279	(16)	-	-
KB08-1 Venture Investment Partnership	9,345	-	(6,100)	(4,946)	2,005	(304)	-	-
KB12-1 Venture Investment Partnership	23,200	5,600	-	-	326	(7)	-	29,119
KoFC KBIC Frontier Champ 2010-5(PEF)	28,548	30	(9,597)	(1,938)	-	-	(368)	16,675
United PF 1st Recovery Private Equity Fund	197,941	-	-	-	148	-	-	198,089
Kores Co., Ltd.	1,505	-	(1,505)	-	-	-	-	-
KB GwS Private Securities Investment Trust	97,788	-	-	(7,222)	7,996	-	-	98,562
KoFC Posco Hanhwa KB shared growth Private Equity Fund	10,329	9,780	-	-	798	(244)	-	20,663
Future Planning KB Start-up Creation Fund	4,030	-	-	(45)	15	-	-	4,000
CH Engineering Co., Ltd.	-	-	-	-	20	-	-	20
Terra Corporation	4	-	-	-	(4)	-	-	-
KB Star office private real estate Investment Trust No.1	20,347	-	-	(1,752)	1,807	-	-	20,402
	₩ 741,987	₩ 16,216	₩ (18,326)	₩ (57,226)	₩ 18,171	₩ (33,122)	₩ (368)	₩ 667,332

Accumulated unrecognized share of losses in investments in associates due to discontinuation of applying the equity method for the years ended December 31, 2015 and 2014, are as follows:

	2015		2014	
	Unrecognized loss	**Accumulated unrecognized loss**	**Unrecognized loss**	**Accumulated unrecognized loss**
Incheon Bridge Co., Ltd.	₩ 163	₩ 1,879	₩ 1,287	₩ 1,716
Shinla Construction Co., Ltd.	14	148	34	134
Doosung Metal Co., Ltd	49	49	-	-
Myeongwon Tech Co., Ltd	43	43	-	-
Terra Corporation	-	-	115	115
JSC Bank CenterCredit	103,453	103,453	-	-

14. Property and Equipment, and Investment Property

The details of property and equipment as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015			
	Acquisition cost	**Accumulated depreciation**	**Accumulated impairment losses**	**Carrying amount**
Land	₩ 1,883,316	₩ -	₩ (1,018)	₩ 1,882,298
Buildings	1,198,045	(376,214)	(5,859)	815,972
Leasehold improvements	599,703	(551,338)	-	48,365
Equipment and vehicles	1,395,082	(1,245,371)	-	149,711
Construction in-progress	443	-	-	443
Finance lease assets	21,785	(9,202)	-	12,583
	₩ 5,098,374	₩ (2,182,125)	₩ (6,877)	₩ 2,909,372

(In millions of Korean won)	2014			
	Acquisition cost	**Accumulated depreciation**	**Accumulated impairment losses**	**Carrying amount**
Land	₩ 1,884,029	₩ -	₩ -	₩ 1,884,029
Buildings	1,153,465	(345,704)	(2,117)	805,644
Leasehold improvements	576,099	(528,629)	-	47,470
Equipment and vehicles	1,492,601	(1,362,673)	-	129,928
Construction in-progress	606	-	-	606
Finance lease assets	21,245	(728)	-	20,517
	₩ 5,128,045	₩ (2,237,734)	₩ (2,117)	₩ 2,888,194

The changes in property and equipment for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015						
	Beginning	**Acquisition**	**Transfers**[1]	**Disposal**	**Depreciation**	**Others**	**Ending**
Land	₩ 1,884,029	₩ 50	₩ (1,496)	₩ (297)	₩ -	₩ 12	₩ 1,882,298
Buildings	805,644	568	39,221	(898)	(28,057)	(506)	815,972
Leasehold improvements	47,470	1,091	30,689	(383)	(34,290)	3,788	48,365
Equipment and vehicles	129,928	106,525	-	(679)	(86,133)	70	149,711
Construction in-progress	606	67,362	(67,526)	-	-	1	443
Finance lease assets	20,517	554	-	-	(8,474)	(14)	12,583
	₩ 2,888,194	₩ 176,150	₩ 888	₩ (2,257)	₩ (156,954)	₩ 3,351	₩ 2,909,372

(In millions of Korean won)

	2014						
	Beginning	**Acquisition**	**Transfers[1]**	**Disposal**	**Depreciation**	**Others**	**Ending**
Land	₩ 1,914,966	₩ 4,786	₩ (35,698)	₩ -	₩ -	₩ (25)	₩ 1,884,029
Buildings	820,405	10,226	2,186	-	(27,093)	(80)	805,644
Leasehold improvements	49,970	2	29,628	(138)	(35,248)	3,256	47,470
Equipment and vehicles	109,184	88,570	1,946	(313)	(70,393)	934	129,928
Construction in-progress	-	54,859	(54,253)	-	-	-	606
Finance lease assets	8,900	29,152	(1,946)	-	(15,589)	-	20,517
	₩ 2,903,425	₩ 187,595	₩ (58,137)	₩ (451)	₩ (148,323)	₩ 4,085	₩ 2,888,194

[1] Including transfers from investment property and assets held for sale.

The changes in accumulated impairment losses of property and equipment for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

2015				
Beginning	**Impairment**	**Reversal**	**Others**	**Ending**
₩ (2,117)	₩ (557)	₩ -	₩ (4,203)	₩ (6,877)

(In millions of Korean won)

2014				
Beginning	**Impairment**	**Reversal**	**Others**	**Ending**
₩ (2,117)	₩ -	₩ -	₩ -	₩ (2,117)

The details of investment property as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015		
	Acquisition cost	**Accumulated depreciation**	**Carrying amount**
Land	₩ 255,806	₩ -	₩ 255,806
Buildings	173,131	(15,758)	157,373
	₩ 428,937	₩ (15,758)	₩ 413,179

(In millions of Korean won)	2014		
	Acquisition cost	**Accumulated depreciation**	**Carrying amount**
Land	₩ 253,533	₩ -	₩ 253,533
Buildings	167,931	(12,198)	155,733
	₩ 421,464	₩ (12,198)	₩ 409,266

The valuation technique and input variables that are used to measure the fair value of investment property as of December 31, 2015, are as follows:

(In millions of Korean won)	2015		
	Fair Value	**Valuation technique**	**Inputs**
Land and Buildings	₩ 447,627	Cost approach value	- Price per square meter - Replacement cost

As of December 31, 2015 and 2014, fair values of the investment properties amount to ₩ 447,627 million and ₩ 409,647 million, respectively. The investment properties were measured by qualified independent appraisers with experience in valuing similar properties in the same area. In addition, per the fair value hierarchy on Note 6.1, the fair value hierarchy of all investment properties has been categorized and classified as Level 3.

Rental income from the above investment properties for the years ended December 31, 2015 and 2014, amounts to ₩ 22,252 million and ₩ 7,167 million, respectively.

The changes in investment property for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015				
	Beginning	**Acquisitions**	**Transfers**	**Depreciation**	**Ending**
Land	₩ 253,533	₩ 21	₩ 2,252	₩ -	₩ 255,806
Buildings	155,733	4,269	1,040	(3,669)	157,373
	₩ 409,266	₩ 4,290	₩ 3,292	₩ (3,669)	₩ 413,179

(In millions of Korean won)	2014				
	Beginning	**Acquisitions**	**Transfers**	**Depreciation**	**Ending**
Land	₩ 122,190	₩ 132,923	₩ (1,580)	₩ -	₩ 253,533
Buildings	78,815	79,072	147	(2,301)	155,733
	₩ 201,005	₩ 211,995	₩ (1,433)	₩ (2,301)	₩ 409,266

15. Intangible Assets

The details of intangible assets as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment losses**	**Carrying amount**
Goodwill	₩ 66,490	₩ -	₩ -	₩ 66,490
Other intangible assets	763,929	(641,350)	(7,470)	115,109
	₩ 830,419	₩ (641,350)	₩ (7,470)	₩ 181,599

(In millions of Korean won)	2014			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment losses**	**Carrying amount**
Goodwill	₩ 66,490	₩ -	₩ -	₩ 66,490
Other intangible assets	714,034	(568,100)	(5,529)	140,405
	₩ 780,524	₩ (568,100)	₩ (5,529)	₩ 206,895

The details of goodwill as of December 31, 2015 and 2014, are as follows:

	2015		2014	
(In millions of Korean won)	**Acquisition cost**	**Carrying amount**	**Acquisition cost**	**Carrying amount**
Housing & Commercial Bank	₩ 65,288	₩ 65,288	₩ 65,288	₩ 65,288
KB Cambodia Bank	1,202	1,202	1,202	1,202
	₩ 66,490	₩ 66,490	₩ 66,490	₩ 66,490

There is no change in goodwill for the years ended December 31, 2015 and 2014.

The details of allocating goodwill to cash-generating units and related information for impairment testing as of December 31, 2015, are as follows:

(In millions of Korean won)	Housing & Commercial Bank			
	Retail Banking	**Corporate Banking**	**KB Cambodia Bank**	**Total**
Carrying amounts	₩ 49,315	₩ 15,973	₩ 1,202	₩ 66,490
Recoverable amount exceeded carrying amount	5,008,711	2,171,276	543	7,180,530
Discount rate (%)	15.30	15.60	30.90	
Permanent growth rate (%)	2.00	2.00	2.00	

Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the combination for impairment testing, and cash-generating units consist of an operating segment or units which are not larger than an operating segment. The Group recognized the amount of ₩ 65,288 million related to goodwill acquired in the merger of Housing & Commercial Bank. Of this amount, the amounts of ₩ 49,315 million and ₩ 15,973 million were allocated to the Retail Banking and Corporate Banking, respectively. Cash-generating units, to which goodwill has been allocated, is tested for impairment annually and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit.

The recoverable amount of a cash-generating unit is measured at the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. If it is difficult to measure the amount obtainable from the sale of the cash-generating unit, the Group measures the fair value less costs to sell by reflecting the characteristics of the measured cash-generating unit. If it is not possible to obtain the reliable information to measure the fair value less costs to sell, the Group uses the asset's value in use as its recoverable amount. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The projections of the future cash flows are based on the most recent financial budget approved by management and generally cover a period of five years. The future cash flows after projection period are estimated on the assumption that the future cash flows will increase by 2.0% for Retail Banking, Corporate Banking and KB Cambodia Bank every year. The key assumptions used for the estimation of the future cash flows are the market size and the Group's market share. The discount rate is a pre-tax rate that reflects assumptions regarding risk-free interest rate, market risk premium and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

The details of intangible assets, excluding goodwill, as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment losses**	**Carrying amount**
Industrial property rights	₩ 1,357	₩ (1,142)	₩ -	₩ 215
Software	610,503	(565,519)	-	44,984
Other intangible assets	127,464	(70,084)	(7,470)	49,910
Finance leases assets	24,605	(4,605)	-	20,000
	₩ 763,929	₩ (641,350)	₩ (7,470)	₩ 115,109

(In millions of Korean won)	2014			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment losses**	**Carrying amount**
Industrial property rights	₩ 1,295	₩ (1,006)	₩ -	₩ 289
Software	560,121	(505,998)	-	54,123
Other intangible assets	128,644	(60,743)	(5,529)	62,372
Finance leases assets	23,974	(353)	-	23,621
	₩ 714,034	₩ (568,100)	₩ (5,529)	₩ 140,405

The changes in intangible assets, excluding goodwill, for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015						
	Beginning	**Acquisition**	**Transfer**	**Disposal**	**Amortization**	**Others**	**Ending**
Industrial property rights	₩ 289	₩ 38	₩ -	₩ -	₩ (120)	₩ 8	₩ 215
Software	54,123	21,026	-	-	(30,201)	36	44,984
Other intangible assets	62,372	5,139	-	(3,384)	(9,270)	(4,947)	49,910
Finance leases assets	23,621	647	-	-	(4,253)	(15)	20,000
	₩ 140,405	₩ 26,850	₩ -	₩ (3,384)	₩ (43,844)	₩ (4,918)	₩ 115,109

(In millions of Korean won)

	2014						
	Beginning	**Acquisition**	**Transfer**	**Disposal**	**Amortization**	**Others**	**Ending**
Industrial property rights	₩ 364	₩ 36	₩ -	₩ -	₩ (117)	₩ 6	₩ 289
Software	78,518	16,370	4,528	-	(44,491)	(802)	54,123
Other intangible assets	71,156	1,673	-	(2,577)	(8,252)	372	62,372
Finance leases assets	8,056	28,208	(4,528)	-	(8,115)	-	23,621
	₩ 158,094	₩ 46,287	₩ -	₩ (2,577)	₩ (60,975)	₩ (424)	₩ 140,405

The changes in accumulated impairment losses on intangible assets for the years ended December 31, 2015 and 2014, are as follows:

	2015				
(In millions of Korean won)	**Beginning**	**Impairment**	**Reversal**	**Others**	**Ending**
Accumulated impairment losses on other intangible assets	₩ (5,529)	₩ (5,531)	₩ 6	₩ 3,584	₩ (7,470)

	2014				
(In millions of Korean won)	**Beginning**	**Impairment**	**Reversal**	**Others**	**Ending**
Accumulated impairment losses on other intangible assets	₩ (5,492)	₩ (128)	₩ 321	₩ (230)	₩ (5,529)

The changes in emissions rights for year ended December 31, 2015, are as follows:

(KAU, in millions of Korean won)

	Applicable under 2015		Applicable under 2016		Applicable under 2017		Total	
	Quantity	Carrying amount	Quantity	Carrying amount	Quantity	Carrying amount	Quantity	Carrying amount
Beginning	-	₩ -	-	₩ -	-	₩ -	-	₩ -
Free of charges	116,799	-	112,137	-	109,140	-	338,076	-
Ending	116,799	₩ -	112,137	₩ -	109,140	₩ -	338,076	₩ -

16. Deferred income tax assets and liabilities

The details of deferred income tax assets and liabilities as of December 31, 2015 and 2014, are as follows:

	2015		
(In millions of Korean won)	Assets	Liabilities	Net amount
Other provisions	₩ 68,633	₩ -	₩ 68,633
Impairment losses on property and equipment	5,019	-	5,019
Interest on equity index-linked deposits	69	-	69
Share-based payments	8,168	-	8,168
Provisions for guarantees	38,225	-	38,225
Gains on valuation of derivatives	-	(30,391)	(30,391)
Present value discount	-	(25)	(25)
Losses on fair value hedged	2,876	-	2,876
Accrued interest	-	(43,414)	(43,414)
Deferred loan origination fees and costs	-	(120,375)	(120,375)
Gains on revaluation	-	(272,696)	(272,696)
Investments in subsidiaries and associates	5,614	(82,542)	(76,928)
Others	540,128	(276,241)	263,887
	668,732	(825,684)	(156,952)
Offsetting of deferred income tax assets and liabilities	(660,411)	660,411	-
Total	₩ 8,321	₩ (165,273)	₩ (156,952)

	2014		
(In millions of Korean won)	Assets	Liabilities	Net amount
Other provisions	₩ 65,033	₩ -	₩ 65,033
Impairment losses on property and equipment	5,412	-	5,412
Interest on equity index-linked deposits	183	-	183
Share-based payments	7,806	-	7,806
Provisions for guarantees	50,115	-	50,115
Gains on valuation of derivatives	-	(51,167)	(51,167)

Present value discount	-	(34)	(34)
Losses on fair value hedged	12,834	-	12,834
Accrued interest	-	(48,019)	(48,019)
Deferred loan origination fees and costs	-	(110,160)	(110,160)
Gains on revaluation	-	(272,696)	(272,696)
Investments in subsidiaries and associates	6,336	(71,565)	(65,229)
Others	562,200	(261,322)	300,878
	709,919	(814,963)	(105,044)
Offsetting of deferred income tax assets and liabilities	(704,605)	704,605	-
Total	₩ 5,314	₩ (110,358)	₩ (105,044)

Unrecognized deferred income tax liabilities

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩ 65,873 million associated with investments in subsidiaries and associates as of December 31, 2015, due to the following reasons:

- The Group is able to control the timing of the reversal of the temporary difference.
- It is probable that the temporary difference will not be reversed in the foreseeable future.

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩ 65,288 million arising from the initial recognition of goodwill from the merger of Housing and Commercial Bank as of December 31, 2015.

Unrecognized deferred income tax assets

No deferred income tax assets have been recognized for the deductible temporary difference of ₩ 543,711 million associated with investments in subsidiaries and associates as of December 31, 2015, because it is not probable that the temporary differences will be reversed in the foreseeable future.

No deferred income tax assets have been recognized for deductible temporary differences of ₩ 67 million, ₩ 80,204 million and ₩ 21,393 million associated with other provisions, loss on SPE repurchase and others, respectively, as of December 31, 2015, due to the uncertainty that these will be realized in the future.

The changes in cumulative temporary differences for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015			
	Beginning	**Decrease**	**Increase**	**Ending**
Deductible temporary differences				
Losses from fair value hedge	₩ 53,033	₩ 53,033	₩ 11,882	₩ 11,882
Other provisions	268,931	268,931	283,672	283,672
Impairment losses on property and equipment	22,363	22,363	20,738	20,738
Interest on equity index-linked deposits	758	758	287	287
Share-based payments	32,256	32,256	33,754	33,754
Provisions for guarantees	207,087	207,087	157,954	157,954
Loss on SPE repurchase	80,204	-	-	80,204
Investment in subsidiaries and associates	579,173	12,264	-	566,909
Others	2,341,471	1,504,231	1,416,105	2,253,345
	3,585,276	₩2,100,923	₩1,924,392	3,408,745
Unrecognized deferred income tax assets				
Other provisions	199			67
Loss on SPE repurchase	80,204			80,204
Investment in subsidiaries and associates	560,861			543,711
Others	18,185			21,393
	2,925,827			2,763,370
Tax rate (%)	24.20			24.20
Total deferred income tax assets from deductible temporary differences	₩ 709,919			₩ 668,732

(In millions of Korean won)	2015			
	Beginning	**Decrease**	**Increase**	**Ending**
Taxable temporary differences				
Accrued interest	₩ (198,424)	₩ (158,989)	₩ (139,959)	₩ (179,394)
Deferred loan origination fees and costs	(455,207)	(455,207)	(497,418)	(497,418)
Gains on valuation of derivatives	(211,434)	(211,434)	(125,582)	(125,582)
Present value discount	(140)	(140)	(104)	(104)
Goodwill from merger	(65,288)	-	-	(65,288)
Gains on revaluation	(1,126,842)	-	-	(1,126,842)
Investment in subsidiaries and associates	(327,356)	(20)	(80,098)	(407,434)
Others	(1,079,846)	(221,023)	(282,670)	(1,141,493)
	(3,464,537)	₩ (1,046,813)	₩ (1,125,831)	(3,543,555)
Unrecognized deferred income tax liabilities				
Goodwill from merger	(65,288)			(65,288)
Investments in subsidiaries and associates	(39,024)			(65,873)
	(3,360,225)			(3,412,394)
Tax rate (%)	24.20			24.20
Total deferred income tax liabilities from deductible temporary differences	₩ (814,963)			₩ (825,684)

(In millions of Korean won)	2014			
	Beginning	**Decrease**	**Increase**	**Ending**
Deductible temporary differences				
Losses from fair value hedge	₩ 68,884	₩ 68,884	₩ 53,033	₩ 53,033
Other provisions	323,781	323,781	268,931	268,931
Impairment losses on property and equipment	11,873	11,873	22,363	22,363
Interest on equity index-linked deposits	1,407	1,325	676	758
Share-based payments	34,053	34,053	32,256	32,256
Provisions for guarantees	208,517	208,517	207,087	207,087
Present value discount	804	804	-	-
Loss on SPE repurchase	80,204	-	-	80,204
Investment in subsidiaries and associates	882,729	308,052	4,496	579,173
Others	1,737,460	1,017,320	1,621,331	2,341,471
	3,349,712	₩1,974,609	₩2,210,173	3,585,276
Unrecognized deferred income tax assets				
Other provisions	250			199
Loss on SPE repurchase	80,204			80,204
Investment in subsidiaries and associates	595,196			560,861
Others	13,376			18,185
	2,660,686			2,925,827
Tax rate (%)	24.20			24.20
Total deferred income tax assets from deductible temporary differences	₩ 644,023			₩ 709,919

(In millions of Korean won)	2014			
	Beginning	**Decrease**	**Increase**	**Ending**
Taxable temporary differences				
Accrued interest	₩ (249,286)	₩ (217,151)	₩ (166,289)	₩ (198,424)
Deferred loan origination fees and costs	(388,266)	(388,266)	(455,207)	(455,207)
Gains on valuation of derivatives	(54,531)	(54,531)	(211,434)	(211,434)
Present value discount	-	-	(140)	(140)
Goodwill from merger	(65,288)	-	-	(65,288)
Gains on revaluation	(1,131,429)	(4,587)	-	(1,126,842)
Investment in subsidiaries and associates	(365,424)	(57,931)	(19,863)	(327,356)
Others	(1,087,088)	(376,397)	(369,155)	(1,079,846)
	(3,341,312)	₩ (1,098,863)	₩ (1,222,088)	(3,464,537)
Unrecognized deferred income tax liabilities				
Goodwill from merger	(65,288)			(65,288)
Investments in subsidiaries and associates	(118,748)			(39,024)
	(3,157,276)			(3,360,225)
Tax rate (%)	24.20			24.20
Total deferred income tax liabilities from deductible temporary differences	₩ (763,944)			₩ (814,963)

17. Other Assets

The details of other assets as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Other financial assets		
Other receivables	₩ 3,165,861	₩ 2,663,441
Accrued income	692,744	754,702
Guarantee deposits	1,160,950	1,291,907
Domestic exchange settlement debits	2,138,401	2,086,792
Others	17,743	20,924
Allowances for loan losses	(286,915)	(288,245)
Present value discount	(1,057)	(489)
	6,887,727	6,529,032
Other non-financial assets		
Other receivables	42,356	1,187
Prepaid expenses	141,758	182,936
Guarantee deposits	3,656	3,607
Others	104,141	34,925
Allowances on other assets	(23,128)	(23,174)
	268,783	199,481
	₩ 7,156,510	₩ 6,728,513

The changes in allowances for loan losses on other assets for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015		
	Other financial assets	Other non-financial assets	Total
Beginning	₩ 288,245	₩ 23,174	₩ 311,419
Provision(reversal)	(883)	838	(45)
Written-off	(2,365)	(884)	(3,249)
Others	1,918	-	1,918
Ending	₩ 286,915	₩ 23,128	₩ 310,043

(In millions of Korean won)	2014		
	Other financial assets	Other non-financial assets	Total
Beginning	₩ 527,114	₩ 16,146	₩ 543,260
Provision(reversal)	27,415	4,065	31,480
Written-off	(290,329)	(2,435)	(292,764)
Others	24,045	5,398	29,443
Ending	₩ 288,245	₩ 23,174	₩ 311,419

18. Assets held for sale

The details of assets held for sale as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015			
	Acquisition cost[1]	Accumulated impairment losses	Carrying amount	Fair value less costs to sell
Land	₩ 35,996	₩ (8,531)	₩ 27,465	₩ 28,658
Buildings	11,660	(5,330)	6,330	6,789
	₩ 47,656	₩ (13,861)	₩ 33,795	₩ 35,447

(In millions of Korean won)	2014			
	Acquisition cost[1]	Accumulated impairment losses	Carrying amount	Fair value less costs to sell
Land	₩ 47,418	₩ (9,442)	₩ 37,976	₩ 40,530
Buildings	26,862	(10,804)	16,058	17,429
	₩ 74,280	₩ (20,246)	₩ 54,034	₩ 57,959

[1] Acquisition cost of buildings held for sale is net of accumulated depreciation.

The valuation technique and input variables that are used to measure the fair value of assets held for sale as of December 31, 2015, are as follows:

(In millions of Korean won)	2015				
	Fair value	Valuation technique[1]	Unobservable inputs[2]	Range of unobservable inputs (%)	Effect of unobservable inputs on fair value
Land and buildings	₩ 35,986	Market comparison approach model	Adjustment index	0.10 ~ 1.16	Fair value increases as the adjustment index rises
			Adjustment ratio	-20.00 ~ 0.00	Fair value decreases as the absolute value of adjustment ratio rises

[1] The appraisal value is adjusted by the adjustment ratio in the event the public sale is unsuccessful.
[2] Adjustment index is calculated using the real estate index or the producer price index, or land price volatility.

The fair values of assets held for sale were measured by qualified independent appraisers with experience in valuing similar properties in the same area. In addition, per the fair value hierarchy on Note 6.1, the fair value hierarchy of all investment properties has been categorized and classified as Level 3.

The changes in accumulated impairment losses of assets held for sale for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

2015				
Beginning	**Provision**	**Reversal**	**Others**	**Ending**
₩ (20,246)	₩ (2,110)	₩ 399	₩ 8,096	₩ (13,861)

(In millions of Korean won)

2014				
Beginning	**Provision**	**Reversal**	**Others**	**Ending**
₩ (10,087)	₩ (15,943)	₩ -	₩ 5,784	₩ (20,246)

As of December 31, 2015, assets held for sale consist of 10 real estates of closed offices, which the management of the Group was committed to sell, but not yet sold as of December 31, 2015. As of the report date, two out of the above assets held for sale are under a sale negotiation and the remaining eight assets are also being actively marketed.

19. Deposits

The details of deposits as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Demand deposits		
Demand deposits in Korean won	₩ 91,959,685	₩ 75,889,591
Demand deposits in foreign currencies	4,122,010	3,017,438
	96,081,695	78,907,029
Time deposits		
Time deposits in Korean won	120,035,078	128,637,365
Fair value adjustments on fair value hedged time deposits in Korean won	(201)	(958)
	120,034,877	128,636,407
Time deposits in foreign currencies	3,623,160	2,484,949
Fair value adjustments on fair value hedged time deposits in foreign currencies	(17,672)	-
	3,605,488	2,484,949
	123,640,365	131,121,356
Certificates of deposits	4,611,447	1,583,047
Total deposits	₩ 224,333,507	₩ 211,611,432

20. Debts

The details of debts as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Borrowings	₩ 11,684,566	₩ 11,271,860
Bonds sold under repurchase agreements and others	596,343	203,944
Call money	2,010,906	2,821,656
	₩ 14,291,815	₩ 14,297,460

The details of borrowings as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)		Lenders	Annual interest rate (%)	2015	2014
Borrowings in Korean won	Borrowings from the Bank of Korea	Bank of Korea	0.50 ~ 0.75	₩ 1,421,375	₩ 1,002,796
	Borrowings from the government	KEMCO and others	0.00 ~ 3.00	1,156,670	611,378
	Borrowings from banking institutions	Industrial Bank of Korea	1.18	180	874
	Borrowings from non-banking financial institutions	Korea Development Bank	0.20 ~ 2.70	284,369	187,452
	Other borrowings	Korea Gas Safety Corporation and others	0.00 ~ 4.35	2,830,933	3,399,780
				5,693,527	5,202,280
Borrowings in foreign currencies	Due to banks	JPMorgan Chase Bank.NA and others	-	9,884	3,313
	Borrowings from banking institutions	Commerzbank and others	0.08 ~ 1.30	3,530,561	3,522,159
	Borrowings from other financial institutions	Export Import Bank of Korea and others	0.86 ~ 1.78	212,507	34,460
	Other borrowings	Standard Chartered Bank and others	-	2,238,087	2,509,648
				5,991,039	6,069,580
				₩ 11,684,566	₩ 11,271,860

The details of bonds sold under repurchase agreements and others as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	Lenders	Annual interest rate (%)	2015	2014
Bonds sold under repurchase agreements	Individuals, groups, corporations	1.46 ~ 3.84	₩ 568,486	₩ 148,869
Bills sold	Individuals, corporations	0.80 ~ 1.50	27,857	55,075
			₩ 596,343	₩ 203,944

The details of call money as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	Lenders	Annual interest rate (%)	2015	2014
Call money in Korean won	KEB Hana Bank and others	1.33 ~ 1.48	₩ 926,400	₩ 1,822,000
Call money in foreign currencies	Central Bank of Uzbekistan and others	0.24 ~ 5.00	1,084,506	999,656
			₩ 2,010,906	₩ 2,821,656

21. Debentures

The details of debentures as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	**Annual interest rate (%)**	**2015**	**2014**
Debentures in Korean won			
Structured debentures	0.21 ~ 8.62	₩ 909,788	₩ 1,239,238
Subordinated fixed rate debentures in Korean won	3.08 ~ 7.51	4,471,829	4,566,124
Fixed rate debentures in Korean won	1.68 ~ 4.09	6,750,523	6,390,553
Floating rate debentures in Korean won	-	-	150,000
		12,132,140	12,345,915
Fair value adjustments on fair value hedged debentures in Korean won		40,170	53,915
Discount on debentures in Korean won		(6,412)	(38,980)
		12,165,898	12,360,850
Debentures in foreign currencies			
Floating rate debentures	0.07 ~ 1.57	1,477,524	1,318,415
Fixed rate debentures	0.98 ~ 3.63	2,325,537	1,578,980
		3,803,061	2,897,395
Fair value adjustments on fair value hedged debentures in foreign currencies		(10,415)	75
Discount on debentures in foreign currencies		(9,410)	(7,856)
		3,783,236	2,889,614
		₩ 15,949,134	₩ 15,250,464

The changes in debentures based on face value for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015				
	Beginning	**Issues**	**Repayments**	**Others**	**Ending**
Debentures in Korean won					
Structured debentures	₩ 1,239,238	₩ 120,000	₩ (449,450)	₩ -	₩ 909,788
Subordinated fixed rate debentures	4,566,124	-	(94,295)	-	4,471,829
Fixed rate debentures	6,390,553	4,080,000	(3,720,030)	-	6,750,523
Floating rate debentures	150,000	-	(150,000)	-	-
	12,345,915	4,200,000	(4,413,775)	-	12,132,140
Debentures in foreign currencies					
Floating rate debentures	1,318,415	179,565	(111,939)	91,483	1,477,524
Fixed rate debentures	1,578,980	1,013,959	(378,577)	111,175	2,325,537
	2,897,395	1,193,524	(490,516)	202,658	3,803,061
	₩15,243,310	₩5,393,524	₩ (4,904,291)	₩202,658	₩15,935,201

(In millions of Korean won)	2014				
	Beginning	**Issues**	**Repayments**	**Others**	**Ending**
Debentures in Korean won					
Structured debentures	₩1,499,238	₩ 80,000	₩ (340,000)	₩ -	₩ 1,239,238
Subordinated fixed rate debentures	8,648,474	-	(4,082,350)	-	4,566,124
Fixed rate debentures	2,941,142	4,670,000	(1,220,589)	-	6,390,553
Floating rate debentures	102,858	353,200	(306,058)	-	150,000
	13,191,712	5,103,200	(5,948,997)	-	12,345,915
Debentures in foreign currencies					
Floating rate debentures	826,770	754,003	(319,157)	56,799	1,318,415
Fixed rate debentures	2,335,059	803,503	(1,633,588)	74,006	1,578,980
	3,161,829	1,557,506	(1,952,745)	130,805	2,897,395
	₩16,353,541	₩6,660,706	₩ (7,901,742)	₩ 130,805	₩15,243,310

22. Provisions

The details of provisions as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Provisions for unused loan commitments	₩ 126,282	₩ 125,345
Provisions for acceptances and guarantees	158,454	207,927
Provisions for asset retirement obligation	70,493	68,999
Others	95,169	81,104
	₩ 450,398	₩ 483,375

The changes in provisions for unused loan commitments, acceptances and guarantees for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015		
	Provisions for unused loan commitments	Provisions for acceptances and guarantees	Total
Beginning	₩ 125,345	₩ 207,927	₩ 333,272
Effects of changes in foreign exchange rate	789	4,808	5,597
Provision(Reversal)	148	(54,281)	(54,133)
Ending	₩ 126,282	₩ 158,454	₩ 284,736

(In millions of Korean won)	2014		
	Provisions for unused loan commitments	Provisions for acceptances and guarantees	Total
Beginning	₩ 139,997	₩ 209,110	₩ 349,107
Effects of changes in foreign exchange rate	547	3,359	3,906
Reversal	(15,199)	(4,542)	(19,741)
Ending	₩ 125,345	₩ 207,927	₩ 333,272

The changes in provisions for asset retirement obligation for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	**2015**	**2014**
Beginning	₩ 68,999	₩ 67,995
Provision	1,941	2,722
Reversal	(363)	-
Used	(2,779)	(4,324)
Unwinding of discount	1,941	2,561
Effects of changes in discount rate	754	45
Ending	₩ 70,493	₩ 68,999

Provisions for asset retirement obligation are present value of estimated costs to be incurred for restoration of the leased properties. Actual expenses are expected to be incurred at the end of each lease contract. Three-year historical data of expired leases were used to estimate the average lease year. Also, the average restoration expense based on actual three-year historical data and the three-year historical average inflation rate were used to estimate the present value of estimated costs.

The changes in other provisions for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015						
	Membership rewards program	Dormant accounts	Litigations	Financial guarantee liabilities	Greenhouse Gas Emission liabilities[1]	Others	Total
Beginning	₩ 76	₩ 33,996	₩ 2,622	₩ 2,718	₩ -	₩ 41,692	₩ 81,104
Provision	159	27,056	9,226	1,091	69	37,860	75,461
Used and Others	(136)	(19,961)	(278)	-	-	(41,021)	(61,396)
Ending	₩ 99	₩ 41,091	₩ 11,570	₩ 3,809	₩ 69	₩ 38,531	₩ 95,169

[1] As of December 31, 2015, the estimated greenhouse gas emission is 122,542 tons.

(In millions of Korean won)

	2014						
	Membership rewards program	Dormant accounts	Litigations	Financial guarantee liabilities	Greenhouse Gas Emission liabilities	Others	Total
Beginning	₩ 69	₩ 16,838	₩ 3,257	₩ 2,699	₩ -	₩ 99,772	₩ 122,635
Provision (Reversal)	164	49,040	(632)	19	-	(892)	47,699
Used and Others	(157)	(31,882)	(3)	-	-	(57,188)	(89,230)
Ending	₩ 76	₩ 33,996	₩ 2,622	₩ 2,718	₩ -	₩ 41,692	₩ 81,104

23. Net defined benefit liabilities

Defined benefit plan

The Group operates defined benefit plans which have the following characteristics:

- The Group has the obligation to pay the agreed benefits to all its current and former employees.
- Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the Group.

The net defined benefit liability recognized in the statements of financial position is calculated in accordance with actuarial valuation methods. Data such as discount rates, future salary increase rates, and mortality rates based on market data and historical data are used. Actuarial assumptions may differ from actual results, due to changes in the market, economic trends and mortality trends.

The changes in the net defined benefit liabilities for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015		
	Present value of defined benefit obligation	**Fair value of plan assets**	**Net defined benefit liabilities**
Beginning	₩ 1,150,368	₩ (1,092,875)	₩ 57,493
Current service cost	162,459	-	162,459
Interest cost (income)	34,147	(32,433)	1,714
Remeasurements :			
-Actuarial gain arising from changes in demographic assumptions	(1,879)	-	(1,879)
-Actuarial gain arising from changes in financial assumptions	(508)	-	(508)
-Actuarial loss arising from experience adjustment	10,631	-	10,631
-Return on plan assets (excluding amounts included in interest income)	-	10,877	10,877
Contributions	-	(180,000)	(180,000)
Payments from plans (benefit payments)	(88,266)	88,266	-
Payments from the Group	(5,152)	-	(5,152)
Transfer in	1,993	(1,981)	12
Transfer out	(3,140)	3,140	-
Effects of changes in foreign exchange rate	22	-	22
Ending	₩ 1,260,675	₩ (1,205,006)	₩ 55,669

(In millions of Korean won)	**2014**		
	Present value of defined benefit obligation	**Fair value of plan assets**	**Net defined benefit liabilities**
Beginning	₩ 905,999	₩ (854,474)	₩ 51,525
Current service cost	146,118	-	146,118
Interest cost (income)	35,833	(33,788)	2,045
Remeasurements :			
-Actuarial gain arising from changes in financial assumptions	95,786	-	95,786
-Actuarial loss arising from experience adjustment	3,003	-	3,003
-Return on plan assets (excluding amounts included in interest income)	-	11,505	11,505
Contributions	-	(249,500)	(249,500)
Payments from plans (benefit payments)	(32,908)	32,908	-
Payments from the Group	(2,961)	-	(2,961)
Transfer in	1,352	(1,352)	-
Transfer out	(1,826)	1,826	-
Effects of changes in foreign exchange rate	(28)	-	(28)
Ending	₩ 1,150,368	₩ (1,092,875)	₩ 57,493

The details of the net defined benefit liabilities as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	**2015**	**2014**
Present value of defined benefit obligation	₩ 1,260,675	₩ 1,150,368
Fair value of plan assets	(1,205,006)	(1,092,875)
Net defined benefit liabilities	₩ 55,669	₩ 57,493

The details of post-employment benefits recognized in profit or loss as employee compensation and benefits for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	**2015**	**2014**
Current service cost	₩ 162,459	₩ 146,118
Interest expenses of net defined benefit liabilities	1,714	2,045
Total	₩ 164,173	₩ 148,163

Remeasurements of net defined benefit liabilities recognized as other comprehensive income for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Remeasurements:		
- Actuarial loss arising from changes in demographic assumptions	₩ 1,879	₩ -
-Actuarial loss arising from changes in financial assumptions	508	(95,786)
-Actuarial loss arising from experience adjustment	(10,631)	(3,003)
-Return on plan assets (excluding amounts included in interest income)	(10,877)	(11,505)
Income tax effects	4,627	26,691
Remeasurements after income tax	₩ (14,494)	₩ (83,603)

The details of fair value of plan assets as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015		
	Assets quoted in an active market	Assets not quoted in an active market	Total
Time deposits	₩ -	₩ 1,205,006	₩ 1,205,006
	₩ -	₩ 1,205,006	₩ 1,205,006

(In millions of Korean won)	2014		
	Assets quoted in an active market	Assets not quoted in an active market	Total
Time deposits	₩ -	₩ 1,073,723	₩ 1,073,723
Others	-	19,152	19,152
	₩ -	₩ 1,092,875	₩ 1,092,875

Key actuarial assumptions used as of December 31, 2015 and 2014, are as follows:

	Ratio (%)	
	2015	2014
Discount rate	2.50	3.00
Salary increase rate	2.40 ~ 4.00	1.83 ~ 4.55
Turnover	1.00	0.70

Mortality assumptions are based on the 8th experience-based mortality table of Korea Insurance Development Institute of 2015.

The sensitivity of the defined benefit obligation to changes in the principal assumptions as of December 31, 2015, is as follows:

		Effect on defined benefit obligation	
	Changes in principal assumption	Increase in principal assumption	Decrease in principal assumption
Discount rate	0.5% p	4.14% decrease	4.43% increase
Salary increase rate	0.5% p	4.06% increase	3.84% decrease
Turnover	0.5% p	0.37% decrease	0.39% increase

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to significant actuarial assumptions is calculated using the projected unit credit method which is used to calculate the defined benefit obligation.

Expected maturity analysis of undiscounted pension benefits as of December 31, 2015, is as follows:

(In millions of Korean won)	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 10 years	Over 10 years	Total
Pension benefits	₩ 32,209	₩ 79,700	₩ 373,180	₩ 825,913	₩ 2,701,387	₩ 4,012,389

The weighted average duration of the defined benefit obligations is 8.8 years.

Expected contributions to plan assets for the period after December 31, 2015, are estimated to be approximately ₩ 160,000 million.

24. Other liabilities

The details of other liabilities as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Other financial liabilities		
Other payables	₩ 3,016,175	₩ 2,570,369
Prepaid card and debit cards	2,107	1,760
Accrued expenses	2,538,380	2,963,749
Financial guarantee liabilities	12,355	12,956
Deposits for letter of guarantees and others	211,388	142,571
Domestic exchange settlement credits	118,599	118,550
Foreign exchanges settlement credits	53,367	69,440
Borrowings from other business accounts	47,707	40,383
Payables to trust accounts	2,791,404	2,548,578
Liabilities incurred from agency relationship	488,325	505,664
Account for agency businesses	321,557	340,061
Others	10,897	30,766
	9,612,261	9,344,847
Other non-financial liabilities		
Other payables	68,449	223,625
Unearned revenue	39,815	42,414
Accrued expenses	176,643	142,385
Withholding taxes	108,225	97,976
Others	64,198	33,028
	457,330	539,428
	₩ 10,069,591	₩ 9,884,275

25. Equity

25.1 Capital Stock

The details of outstanding shares of the Bank as of December 31, 2015 and 2014, are as follows:

	Ordinary shares	
	2015	2014
Number of shares authorized	1,000,000,000	1,000,000,000
Face value per share	₩ 5,000	₩ 5,000
Number of shares	404,379,116	404,379,116
Capital stock[1]	₩ 2,021,896	₩ 2,021,896

[1] In millions of Korean won.

25.2 Capital surplus

The details of capital surplus as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Paid-in capital in excess of face value	₩ 4,604,417	₩ 4,604,417
Gain on business combination	397,669	397,669
Revaluation increment	177,229	177,229
Other capital surplus	40,389	40,389
	₩ 5,219,704	₩ 5,219,704

The gain on business combination is a gain from a bargain purchase related to the merger with Korea Long Term Credit Bank on December 31, 1998, in accordance with previous Korean GAAP.

25.3 Accumulated other comprehensive income

The details of accumulated other comprehensive income as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Remeasurements of net defined benefit liabilities	₩ (102,182)	₩ (87,688)
Currency translation differences	32,993	(12,149)
Gain on valuation of available-for-sale financial assets	682,818	760,530
Losses on valuation of equity method investments	(87,346)	(89,882)
Losses on hedges of a net investment in a foreign operation	(25,476)	-
	₩ 500,807	₩ 570,811

25.4 Retained earnings

Retained earnings as of December 31, 2015 and 2014, consist of:

(In millions of Korean won)	2015	2014
Legal reserves	₩ 2,033,463	₩ 1,997,380
Regulatory reserve for credit losses	1,867,761	1,690,979
Voluntary reserves	9,893,452	8,946,874
Retained earnings before appropriation	1,210,128	1,492,829
	₩ 15,004,804	₩ 14,128,062

With respect to the allocation of net profit earned in a fiscal term, the Bank must set aside in its legal reserve an amount equal to at least 10% of its net income after tax as reported in the separate statement of comprehensive income each time it pays dividends on its net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital in accordance with Article 40 of the Banking Act. The reserves can only be transferred to capital stock or be used to reduce deficit. With respect to the Bank's branches overseas, a portion of the branch's net income is appropriated into legal reserves, in line with the financial legislation of the country where the overseas branch is located.

Regulatory Reserve for Credit Losses

Measurement and Disclosure of Regulatory Reserve for Credit Losses are required in accordance with Articles 29.1 through 29.2 of Regulation on Supervision of Banking Business.

The details of the regulatory reserve for credit losses as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Beginning	₩ 1,867,761	₩ 1,690,979
Amounts estimated to be appropriated	(32,646)	176,782
Ending	₩ 1,835,115	₩ 1,867,761

The adjustments to the regulatory reserve for credit losses for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Provision (reversal) of regulatory reserve for credit losses	₩ (32,646)	₩176,782
Adjusted profit after provision of regulatory reserve for credit losses[1]	1,139,884	852,259

[1] Adjusted profit after provision of regulatory reserve for credit losses is not accordance with Korean IFRS and calculated on the assumption that provision (reversal) of regulatory reserve for credit losses before income tax is adjusted to the profit.

26. Interest income and expense

The details of interest income and expense for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Interest income		
Due from financial institutions	₩ 112,024	₩ 142,644
Loans	7,380,610	8,495,967
Financial investments		
Available-for-sale financial assets	386,427	469,173
Held-to-maturity financial assets	392,658	452,652
Others	116,663	142,191
	8,388,382	9,702,627
Interest expenses		
Deposits	3,030,091	3,842,482
Debts	167,785	228,146
Debentures	418,979	594,341
Others	59,780	66,212
	3,676,635	4,731,181
Net interest income	₩ 4,711,747	₩ 4,971,446

Interest income recognized on impaired loans is ₩ 51,218 million (2014: ₩ 93,935 million) for the year ended December 31, 2015.

27. Fee and commission income and expense

The details of fee and commission income, and fee and commission expense for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Fee and commission income		
Banking activity fees	₩ 173,442	₩ 171,909
Lending activity fees	87,202	73,605
Agent activity fees	406,123	372,323
Trust and other fiduciary fees	241,246	203,426
Guarantee fees	29,924	29,283
Credit card related fees	1,420	1,612
Foreign currency related fees	97,148	96,020
Security activity commissions	160,211	145,718
Other business account commission on consignment	30,525	25,311
Debit card related fees and commissions	680	637
Others	144,133	151,494
	1,372,054	1,271,338
Fee and commission expense		
Trading activity related fees[1]	10,531	8,872
Lending activity fees	21,225	18,548
Credit card related fees	1,096	1,149
Contributions to external institutions	22,318	18,614
Outsourcing related fees	62,475	55,508
Foreign currency related fees	12,286	11,452
Management fees of written-off loans	12,667	9,853
Others	73,083	69,297
	215,681	193,293
Net fee and commission income	₩ 1,156,373	₩ 1,078,045

[1] Fees from financial assets/liabilities at fair value through profit or loss.

28. Net gains or losses from financial assets/liabilities at fair value through profit or loss

28.1 Net gains or losses from financial instruments held for trading

Net gains or losses from financial assets/liabilities at fair value through profit or loss are composed of gains or losses from financial instruments held for trading includes interest income, dividend income, gains or losses arising from changes in the fair values, sales and redemptions. The details for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Gains from financial instruments held for trading		
Financial assets held for trading		
Debt securities	₩ 224,641	₩ 298,762
Equity securities	11,487	12,314
	236,128	311,076
Derivatives held for trading		
Interest rate	976,180	1,313,083
Currency	2,287,541	1,886,636
Stock or index	13,727	44,775
Other	803	801
	3,278,251	3,245,295
Other financial instruments	2,166	47
	3,516,545	3,556,418
Losses from financial instruments held for trading		
Financial assets held for trading		
Debt securities	34,713	19,553
Equity securities	9,237	34,118
	43,950	53,671
Derivatives held for trading		
Interest rate	988,989	1,361,647
Currency	2,178,142	1,763,895
Stock or index	12,877	20,346
Other	241	401
	3,180,249	3,146,289
Financial liabilities held for trading	-	117
Other financial instruments	2,213	50
	3,226,412	3,200,127
Net gain or loss from financial instruments held for trading	₩ 290,133	₩ 356,291

28.2 Net gains or losses from financial instruments designated at fair value through profit or loss

Net gains or losses from financial instruments designated at fair value through profit or loss includes interest income, dividend income, gains or losses arising from changes in the fair values, sales and redemptions. The details for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Gains from financial assets designated at fair value through profit or loss		
Derivative linked securities	₩ 1,697	₩ -
Losses from financial assets designated at fair value through profit or loss		
Derivative linked securities	4,802	-
Net gain or loss from financial assets designated at fair value through profit or loss	₩ (3,105)	₩ -

29. Other operating income and expenses

The details of other operating income and expenses for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Other operating income		
Revenue related to available-for-sale financial assets		
Gains on redemption of available-for-sale financial assets	₩ 313	₩ -
Gains on sale of available-for-sale financial assets	397,757	54,769
	398,070	54,769
Gain on sale of held-to-maturity financial assets	-	1,668
Gains on foreign exchange transactions	2,422,525	1,468,472
Dividend income	84,538	75,627
Others	183,365	153,059
	3,088,498	1,753,595
Other operating expenses		
Expense related to available-for-sale financial assets		
Losses on redemption of available-for-sale financial assets	-	6
Losses on sale of available-for-sale financial assets	2,142	2,242
Impairment on available-for-sale financial assets	216,027	180,784
	218,169	183,032
Losses on foreign exchange transactions	2,399,321	1,452,100
Others	892,734	887,014
	3,510,224	2,522,146
Net other operating expenses	₩ (421,726)	₩ (768,551)

30. General and administrative expenses

30.1 General and administrative expenses

The details of general and administrative expenses for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Employee Benefits		
Salaries and short-term employee benefits - salaries	₩ 1,442,575	₩ 1,410,106
Salaries and short-term employee benefits - welfare expense	696,210	652,004
Post-employment benefits - defined benefit plans	164,173	148,163
Post-employment benefits - defined contribution plans	5,085	4,425
Termination benefits	390,245	473
Share-based payments	11,915	7,234
	2,710,203	2,222,405
Depreciation and amortization	204,467	211,599
Other general and administrative expenses		
Rental expense	237,800	262,834
Tax and dues	97,721	100,725
Communication	24,046	23,603
Electricity and utilities	23,858	23,312
Publication	13,816	14,681
Repairs and maintenance	12,085	13,798
Vehicle	7,833	9,155
Travel	3,581	3,313
Training	18,402	14,152
Service fees	87,704	85,097
Others	370,305	388,184
	897,151	938,854
	₩ 3,811,821	₩ 3,372,858

30.2 Share-based payments

30.2.1 Share options

The changes in the number of granted share options and the weighted average exercise price for the years ended December 31, 2015 and 2014, are as follows:

(In Korean won, except shares)

	2015					
	Number of granted shares			Number of exercisable shares	Exercise price per share	Remaining contractual life(Years)
	Beginning	Expired	Ending			
Series 22	657,498	657,498	-	-	₩ -	-
Series 23	15,246	15,246	-	-	-	-
	672,744	672,744	-	-		
Weighted average exercise price	₩ 77,268	₩ 77,268	₩ -	₩ -	₩ -	

(In Korean won, except shares)

	2014					
	Number of granted shares			Number of exercisable shares	Exercise price per share	Remaining contractual life(Years)
	Beginning	Expired	Ending			
Series 19	751,651	751,651	-	-	₩ -	-
Series 20	25,613	25,613	-	-	-	-
Series 21	18,987	18,987	-	-	-	-
Series 22	657,498	-	657,498	657,498	77,100	0.11
Series 23	15,246	-	15,246	15,246	84,500	0.22
	1,468,995	796,251	672,744	672,744		
Weighted average exercise price	₩ 77,235	₩ 77,207	₩ 77,268	₩ 77,268	₩ -	

30.2.2 Share Grants

The Group changed the scheme of share-based payment from share option to share grants in November 2007. The share grant award program is an incentive plan that sets, on grant date, the maximum number of shares that can be awarded. Actual shares to be granted is determined in accordance with achievement of performance targets over the vesting period.

The details of the share grants as of December 31, 2015, are as follows:

(In number of shares)

Share grants	Grant date	Number of granted shares[1]	Vesting conditions
Series 48	2013.07.23	14,470	Service period : 2 years [2,3]
Series 49	2013.07.24	36,495	Service period : 2 years [2,3]
Series 50	2013.07.24	9,214	Service period : 2 years [2,3]
Series 52	2013.08.01	10,278	Service period : 2 years [2,3]
Series 57	2014.01.01	8,853	Service period : 2 years [2,3]
Series 58	2014.01.01	78,700	Service period : 2 years [2,3]
Series 60	2015.01.01	349,984	Service period : 2 years [2,3]
Series 61	2015.04.14	8,390	Service period : 2 years [2,3]
Series 62	2015.01.12	15,965	Service period : 2 years [2,3]
Series 63	2015.08.01	9,969	Service period : 2 years [2,3]
Series 64	2015.07.24	35,069	Service period : 2 years [2,3]
Series 65	2015.08.26	13,828	Service period : 2 years [2,3]
Series 66	2014.11.21	28,392	Service period : 3 years [2,4]
Deferred grant in 2010	-	50	
Deferred grant in 2011	-	101	
Deferred grant in 2012	-	13,082	
Deferred grant in 2013	-	69,240	
Deferred grant in 2014	-	124,149	
Deferred grant in 2015	-	1,877	
		828,106	

[1] Granted shares represent the total number of shares initially granted to directors and employees that have residual shares at the end of reporting period. However, deferred grants are residual shares at the end of reporting period.
[2] Certain portion of the granted shares is compensated over a maximum period of three years.
[3] In general, 40%, 30% and 30% of the number of shares to be granted are determined upon the accomplishment of the targeted performance results, the targeted relative TSR and the targeted financial results of the Bank, respectively. However, as for certain number of shares, half of the number of shares to be granted is determined based on the accomplishment of the targeted relative TSR, while the other half is determined by the targeted performance results.
[4] 30%, 35% and 35% of the number of shares to be granted are determined upon the accomplishment of the targeted total assets growth rate, the targeted relative TSR and the targeted ROA, respectively.

The details of share grants linked to short-term performance as of December 31, 2015, are as follows:

	Grant date	Number of vested shares [1]	Vesting conditions
Granted shares for 2010	2010.01.01	363	Vested
Granted shares for 2011	2011.01.01	3,985	Vested
Granted shares for 2012	2012.01.01	54,609	Vested
Granted shares for 2013	2013.01.01	68,751	Vested
Granted shares for 2014	2014.01.01	164,953	Vested
Granted shares for 2015	2015.01.01	174,345	Proportion to service period

[1] The number of shares, which are exercisable, is determined by the results of performance. The share grants are settled over three years.

Share grants are measured at fair value using the Monte Carlo Simulation Model and assumptions used in determining the fair value as of December 31, 2015, are as follows:

(In Korean won)	Expected exercise period (Years)	Risk free rate (%)	Fair value (Market performance condition)	Fair value (Non-market performance condition)
Linked to long term performance				
Series 48	0.00~3.00	1.63	36,497	33,145~34,180
Series 49	0.00~3.00	1.63	36,382	33,145~34,180
Series 49-1	0.00~3.00	1.63	36,583	33,145~34,180
Series 50	0.00~3.00	1.63	36,382	33,145~34,180
Series 52	0.00~3.00	1.63	36,321	33,145~34,180
Series 57	0.00~3.00	1.63	34,407	33,145~34,180
Series 58	0.00~3.00	1.63	34,407	33,145~34,180
Series 60	1.00~4.00	1.63	31,695	33,145~33,213
Series 61	1.28~5.01	1.63	31,695	33,110~33,213
Series 62	1.00~4.00	1.63	31,695	33,145~33,213
Series 63	1.58~5.01	1.64	31,695	33,110~33,213
Series 64	1.56~5.01	1.64	31,695	33,110~33,213
Series 65	1.65~5.01	1.64	31,695	33,110~33,213
Series 66	1.89~4.89	1.64	33,689	33,157~33,292
Grant deferred in 2012	0.00	1.72	-	34,180
Grant deferred in 2013	0.00~1.00	1.72	-	33,153~34,180
Grant deferred in 2014	0.00~2.00	1.72	-	33,143~34,180
Grant deferred in 2015	0.02~2.03	1.72	-	33,179~33,877
Linked to short-term performance				
Share granted in 2012	0.00	1.72	-	34,180
Share granted in 2013	0.00~1.00	1.72	-	33,153~39,944
Share granted in 2014	0.00~2.03	1.72	-	33,143~34,180
Share granted in 2015	0.00~3.00	1.72	-	33,145~34,180

Expected volatility is based on the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the grant and the current stock price as of December 31, 2015, was used for the underlying asset price. Also, the average three-year historical dividend rate was used as the expected dividend rate.

As of December 31, 2015 and 2014, the accrued expenses related to share-based payments, including share options and share grants, amounted to ₩ 33,754 million and ₩ 32,256 million, respectively, and the compensation costs from share options and share grants amounting to ₩ 11,915 million and ₩ 7,234 million were incurred during the years ended December 31, 2015 and 2014, respectively. There is no intrinsic value of the vested share options as of December 31, 2014.

31. Non-operating income and expenses

The details of non-operating income and expenses for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Non-operating income		
Gains of disposal in property and equipment and assets held for sale	₩ 1,017	₩ 1,454
Rent received	28,560	14,093
Others	258,716	57,535
	288,293	73,082
Non-operating expenses		
Losses of disposal in property and equipment and assets held for sale	927	1,163
Donation	41,839	45,884
Restoration cost	722	1,818
Others	51,369	58,216
	94,857	107,081
Net non-operating income(expenses)	₩ 193,436	₩ (33,999)

32. Income tax expense

Income tax expense for the years ended December 31, 2015 and 2014, consists of:

(In millions of Korean won)	2015	2014
Tax payable		
Current tax expense	₩ 207,579	₩ 415,966
Adjustments recognized in the period for current tax of prior years	(16,207)	(13,855)
	191,372	402,111
Changes in deferred income tax assets (liabilities)	51,908	(14,876)
Income tax expense of overseas branches	3,827	6,202
Income tax recognized directly in equity		
Changes in value of available-for-sale financial assets	24,707	(70,015)
Changes in remeasurements of net defined benefit liabilities	4,627	26,691
Losses on hedging investment of A net investment in a foreign operation	8,134	-
Others	(778)	78
	36,690	(43,246)
Consolidated tax effect	(9,806)	(18,957)
Tax expense	₩ 273,991	₩ 331,234

An analysis of the net profit before income tax and income tax expense for the years ended December 31, 2015 and 2014, follows:

(In millions of Korean won)	2015	2014
Profit before income tax	₩ 1,381,229	₩ 1,360,275
Tax at the applicable tax rate[1]	333,796	328,724
Non-taxable income	(53,443)	(6,091)
Non-deductible expense	13,713	10,665
Tax credit and tax exemption	(397)	(141)
Temporary difference for which no deferred tax is recognized	5,082	17,788
Tax supplementary pay(rebate) for tax of prior years	(21,222)	(9,375)
Income tax expense of overseas branches	3,827	6,202
Tax effect of investments in subsidiaries	1,241	2,085
Income tax expense of overseas branch	(671)	765
Consolidated tax effect	(9,806)	(18,957)
Others	1,871	(431)
Tax expense	₩ 273,991	₩ 331,234
Tax expense / Profit before income tax (%)	19.84	24.35

[1] Applicable income tax rate for ₩ 200 million and below is 11%, for ₩ 200 million to ₩ 20 billion is 22%, and for over ₩ 20 billion is 24.2%.

The details of current tax liabilities (income tax payables) and current tax assets (income tax refund receivables) before offsetting, as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	**2015**	**2014**
Income tax refund receivables prior to offsetting[1]	₩ (229,470)	₩ (215,345)
Tax payables prior to offsetting[2]	210,024	414,239
Tax payables (receivable) after offsetting	(19,446)	198,894
Adjustment on consolidated tax payable and others[3]	(9,806)	(18,956)
Accounts payable[4]	36,373	(172,353)
Current tax payable	₩ 7,121	₩ 7,585

[1] Excludes current tax assets of ₩ 17,612 million (2014: ₩ 305,831 million) from uncertain tax position, which do not qualify for offsetting.
[2] Includes income tax payable of ₩ 7,121 million (2014: ₩ 7,585 million) under current tax liabilities as of December 31, 2015, which are not to be offset against any income tax refund receivables, such as those of overseas branches.
[3] Tax expense reduced due to the adoption of consolidated tax return was reclassified as tax benefit.
[4] The amount of income tax payable by the Group is reclassified as accounts payable, not to the tax authority, but to KB Financial Group Inc. due to the adoption of consolidated tax return.

33. Dividends

The dividend to the shareholders of the parent company in respect of the year ended December 31, 2015, of ₩ 941 per share, amounting to total dividends of ₩ 380,521 million, is to be proposed at the annual general shareholders' meeting on March 24, 2016. The Group's consolidated financial statements as of December 31, 2015, do not reflect this dividend payable.

34. Accumulated other comprehensive income

The details of accumulated other comprehensive income for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015				
	Beginning	**Changes except for reclassification**	**Reclassification to profit or loss**	**Tax effect**	**Ending**
Remeasurements of net defined benefit liabilities	₩ (87,688)	₩ (19,121)	₩ -	₩ 4,627	₩ (102,182)
Currency translation differences	(12,149)	45,142	-	-	32,993
Gains(losses) on valuation of available-for-sale financial assets	760,530	214,106	(316,525)	24,707	682,818
Gains(losses) on valuation of equity method investments	(89,882)	3,314	-	(778)	(87,346)
Gains(losses) on hedges of a net investment in a foreign operation	-	(33,610)	-	8,134	(25,476)
	₩ 570,811	₩ 209,831	₩ (316,525)	₩ 36,690	₩ 500,807

(In millions of Korean won)	2014				
	Beginning	**Changes except for reclassification**	**Reclassification to profit or loss**	**Tax effect**	**Ending**
Remeasurements of net defined benefit liabilities	₩ (4,085)	₩ (110,294)	₩ -	₩ 26,691	₩ (87,688)
Currency translation differences	(29,430)	17,281	-	-	(12,149)
Gains(losses) on valuation of available-for-sale financial assets	538,218	360,397	(68,070)	(70,015)	760,530
Gains(losses) on valuation of held-to-maturity financial assets	3	-	(3)	-	-
Gains(losses) on valuation of equity method investments	(57,087)	(33,122)	249	78	(89,882)
	₩ 447,619	₩ 234,262	₩ (67,824)	₩ (43,246)	₩ 570,811

35. Trust Accounts

Financial information of the trust accounts the Group manages as of December 31, 2015 and 2014, and for the years ended December 31, 2015 and 2014, is as follows:

(In millions of Korean won)	2015		2014	
	Total assets	**Operating revenues**	**Total assets**	**Operating revenues**
Consolidated	₩ 3,754,063	₩ 125,392	₩ 3,614,835	₩ 150,598
Unconsolidated	34,216,814	1,334,526	28,062,557	1,230,286
	₩ 37,970,877	₩ 1,459,918	₩ 31,677,392	₩ 1,380,884

[1] Financial information of the trust accounts has been prepared in accordance with the Statement of Korea Accounting Standard 5004, *Trust Accounts*, and enforcement regulations of Financial Investment Services under the Financial Investment Services and Capital Markets Act.

Significant receivables and payables related to the Group's trust accounts as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Assets		
Accrued trust fees	₩ 27,796	₩ 24,054
Liabilities		
Due to trust accounts	₩ 2,791,403	₩ 2,548,578
Accrued interest on due to trust accounts	6,354	5,790
	₩ 2,797,757	₩ 2,554,368

Significant revenue and expenses related to the Group's trust for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Revenues		
Fees and commissions from trust accounts	₩ 241,246	₩ 203,426
Commissions from early termination in trust accounts	171	129
	₩ 241,417	₩ 203,555
Expenses		
Interest expenses on due to trust accounts	₩ 48,293	₩ 52,664

36. Supplemental Cash Flow Information

Cash and cash equivalents as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Cash	₩ 2,073,741	₩ 2,018,753
Checks with other banks	396,955	525,452
Due from Bank of Korea	6,791,990	6,508,623
Due from other financial institutions	5,300,304	4,920,682
	14,562,990	13,973,510
Restricted due from financial institutions	(6,905,907)	(6,877,675)
Due from financial institutions with original maturities over three months	(1,187,577)	(763,775)
	(8,093,484)	(7,641,450)
	₩ 6,469,506	₩ 6,332,060

Significant non-cash transactions for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Decrease in loans due to the write-offs	₩ 979,633	₩ 1,589,912
Changes in accumulated other comprehensive income due to valuation of financial investments	(77,712)	222,309
Changes in accumulated other comprehensive income due to investment in associates	2,536	(32,795)
Changes in financial investments due to debt-for-equity swap with Taihan Electric Wire Co., Ltd.	14,729	-
Changes in financial investments due to debt-for-equity swap with Hyundai Cement Co., Ltd.	-	25,178

Cash inflows and outflows from income tax, interest and dividends for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	Activities	2015	2014
Income tax paid	Operating	₩ 99,296	₩ 303,291
Interest received	Operating	8,956,307	10,204,384
Interest paid	Operating	4,063,499	4,834,915
Dividends received	Operating	84,765	82,897
Dividends paid	Financing	230,496	158,517

37. Contingent liabilities and commitments

Acceptances and guarantees as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Confirmed acceptances and guarantees		
Confirmed acceptances and guarantees in Korean won		
Acceptances and guarantees for KB purchasing loan	₩ 422,316	₩ 428,815
Others	609,034	669,233
	1,031,350	1,098,048
Confirmed acceptances and guarantees in foreign currencies		
Acceptances of letter of credit	250,647	327,963
Letter of guarantees	51,500	61,081
Bid bond	62,402	43,362
Performance bond	1,006,304	1,087,394
Refund guarantees	1,924,030	1,494,023
Others	1,444,618	959,685
	4,739,501	3,973,508
Financial guarantees		
Acceptances and guarantee for issue of debentures	51,200	51,200
Acceptances and guarantees for mortgage	27,805	75,651
Overseas debt guarantees	374,769	392,021
International financing guarantees in foreign currencies	11,893	35,949
Others	-	600
	465,667	555,421
	6,236,518	5,626,977
Unconfirmed acceptances and guarantees		
Guarantees of letter of credit	2,142,496	2,825,919
Refund guarantees	1,019,116	1,060,413
	3,161,612	3,886,332
	₩ 9,398,130	₩ 9,513,309

Acceptances and guarantees by counterparty as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
Large companies	₩ 5,238,851	₩ 2,489,134	₩ 7,727,985	82.23
Small medium sized companies	833,355	517,703	1,351,058	14.38
Public and others	164,312	154,775	319,087	3.39
	₩ 6,236,518	₩ 3,161,612	₩ 9,398,130	100.00

(In millions of Korean won)

	2014			
	Confirmed guarantees	**Unconfirmed guarantees**	**Total**	**Proportion (%)**
Large companies	₩ 4,611,841	₩ 2,936,635	₩ 7,548,476	79.35
Small medium sized companies	857,004	562,655	1,419,659	14.92
Public and others	158,132	387,042	545,174	5.73
	₩ 5,626,977	₩ 3,886,332	₩ 9,513,309	100.00

Acceptances and guarantees by industry as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015			
	Confirmed guarantees	**Unconfirmed guarantees**	**Total**	**Proportion (%)**
Financial institutions	₩ 108,031	₩ 3,664	₩ 111,695	1.19
Manufacturing	3,559,955	1,934,904	5,494,859	58.47
Service	584,333	68,494	652,827	6.95
Wholesale and retail	1,285,101	796,109	2,081,210	22.14
Construction	606,099	200,976	807,075	8.59
Public	73,160	106,288	179,448	1.91
Others	19,839	51,177	71,016	0.75
	₩ 6,236,518	₩ 3,161,612	₩ 9,398,130	100.00

(In millions of Korean won)

	2014			
	Confirmed guarantees	**Unconfirmed guarantees**	**Total**	**Proportion (%)**
Financial institutions	₩ 125,350	₩ 3,573	₩ 128,923	1.36
Manufacturing	3,179,368	2,410,472	5,589,840	58.76
Service	583,302	114,645	697,947	7.34
Wholesale and retail	932,282	788,804	1,721,086	18.09
Construction	709,582	215,382	924,964	9.72
Public	72,964	336,484	409,448	4.30
Others	24,129	16,972	41,101	0.43
	₩ 5,626,977	₩ 3,886,332	₩ 9,513,309	100.00

Commitments as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015	2014
Commitments		
Corporate loan commitments	₩ 39,088,006	₩ 42,975,974
Retail loan commitments	15,051,360	13,846,701
Other acceptance and guarantees in Korean won	1,000,000	1,000,000
Other purchase of security investment	1,613,287	1,635,657
	56,752,653	59,458,332
Financial Guarantees		
Credit line	3,449,749	3,809,478
Purchase of security investment	98,700	73,500
	3,548,449	3,882,978
	₩ 60,301,102	₩ 63,341,310

Other Matters (including litigation)

a) The Bank has filed 59 lawsuits (excluding minor lawsuits in relation to the collection or management of loans), as the plaintiff, involving aggregate claims of ₩ 388,395 million, and faces 165 lawsuits as the defendant (excluding minor lawsuits in relation to the collection or management of loans) involving aggregate damages of ₩ 321,176 million, which arose in the normal course of the business and are still pending as of December 31, 2015.

b) According to shareholders' agreement on September 25, 2009, among the Bank, the International Finance Corporation ("IFC") and the remaining shareholders, the Bank granted a put option to IFC with the right to sell shares of JSC Bank Center Credit to itself or its designee. The exercise price is determined at its fair value by mutual agreement between the Bank and IFC. If the price is not agreed by the designated date, it is determined by the value measured by the selected independent external valuation institution. The put option may be exercised by IFC at any time from February 24, 2013 to February 24, 2017.

c) The face values of the securities sold to general customers through tellers' sale amount to ₩ 11,254 million and ₩ 26,487 million as of December 31, 2015 and 2014, respectively.

d) The Bank filed a claim for rectification of education tax paid for revenues regarding the credit card business before the spin-off. The claim was ruled in favor of the Bank by the Supreme Court in December 2012, and the refunded education tax amounting to ₩ 83,100 million was recognized as revenue.

Depending on the judgments of the court or the National Tax Service, the beneficiary of refunded education tax may be changed from the Bank to KB Kookmin Card Co., Ltd. However, the possibility of such event is considered relatively low.

e) During the year ended December 31, 2013, the Bank underwent a tax audit for the fiscal years 2008 to 2012 by the Seoul Regional Tax Office. As a result, the Bank was assessed a total of ₩ 124,357 million for underpaid income taxes (including local income taxes). Thereafter, the Bank paid ₩ 123,330 million, excluding local income tax amounting to ₩ 1,027 million recognized as non-trade payable as of December 31, 2015. Subsequently, the Bank has appealed to the tax tribunal for the amount of ₩ 114,283 million in connection with the above tax assessment. The appeal is pending as of December 31, 2015.

38. Subsidiaries

The details of subsidiaries as of December 31, 2015, are as follows:

Name of subsidiaries	Ownership (%)	Location	Industry
Kookmin Bank Int'l Ltd.(London)	100.00	United Kingdom	Banking and foreign exchange transaction
Kookmin Bank Hong Kong Ltd.	100.00	Hong Kong	Banking and foreign exchange transaction
Kookmin Bank Cambodia PLC.	100.00	Cambodia	Banking and foreign exchange transaction
Kookmin Bank (China) Ltd.	100.00	China	Banking and foreign exchange transaction
Personal pension trust and 10 others [1]	-	Korea	Trust
Samho Kyungwon Co., Ltd. and 3 others [2]	-	Korea	Asset-backed securitization and others
KB Haeorum Private securities 26 and 6 others [3]	100.00	Korea	Private equity fund
KB Wise Star Private Real Estate Feeder Fund 1 [3]	86.00	Korea	Investment Trust
KB Star Retail Private Real Estate Master Fund 1 [2,4]	42.12	Korea	Investment Trust
KB Star Office Private Real Estate Master Fund 2 [2,4]	38.22	Korea	Investment Trust

[1] The Bank controls the trust because it has power that determines the management performance over the trust and is exposed to variable returns to absorb losses through the guarantees of payment of principal or, payment of principal and fixed rate of return.
[2] The Bank controls these investees because it is exposed to variable returns from its involvement with the investees and has ability to affect those returns through its power, even though it holds less than a majority of the voting rights of the investees.
[3] The Bank controls these investees because it is exposed to variable returns from its involvement with the investees and has ability to affect those returns through its power.
[4] Ownerships are based on consolidated basis.

The condensed financial information of major subsidiaries as of December 31, 2015 and 2014, and for the years ended December 31, 2015 and 2014, is as follows:

(In millions of Korean won)	2015				
	Assets	**Liabilities**	**Equity**	**Operating revenue**	**Profit (Loss) for the period**
Kookmin Bank Int'l Ltd.(London)	₩ 472,941	₩ 388,623	₩ 84,318	₩ 10,756	₩ 3,484
Kookmin Bank Hong Kong Ltd.	684,994	529,847	155,147	14,529	5,127
Kookmin Bank Cambodia PLC.	88,675	63,851	24,824	5,850	2,054
Kookmin Bank (China) Ltd.	1,663,788	1,231,463	432,325	42,269	(8,465)
Personal pension trust and 10 others	3,803,511	3,704,365	99,146	129,956	3,664

(In millions of Korean won)	2014				
	Assets	**Liabilities**	**Equity**	**Operating revenue**	**Profit(Loss) for the period**
Kookmin Bank Int'l Ltd.(London)	₩ 441,292	₩ 365,483	₩ 75,809	₩ 11,069	₩ 3,466
Kookmin Bank Hong Kong Ltd.	639,509	498,960	140,549	16,495	8,616
Kookmin Bank Cambodia PLC.	95,864	74,578	21,286	6,021	266
Kookmin Bank (China) Ltd.	1,259,847	846,151	413,696	43,507	7,984
Personal pension trust and 10 others	3,667,615	3,571,818	95,797	167,608	(443)

Nature of the risks associated with interests in consolidated structured entities

Terms of contractual arrangements that provide financial support to a consolidated structured entity

- The Bank provides the capital commitment of ₩ 258,000 million to KB Wise Star Private Real Estate Feeder Fund 1st, of which ₩ 185,717 million has not been utilized. Based on the investment agreement, the Bank is subject to increase its investment upon the request of the asset management company or the additional agreement among investors.

- The Bank provides the guarantees of payment of principal or principal and fixed rate of return, in case the operating results of the trusts are less than the guaranteed principal or principal and a fixed rate of return.

Changes in subsidiaries

The condonation of the debt of KAMCO Value Recreation 3rd Securitization Specialty Co., Ltd. was made and it was excluded from the consolidation during the year ended December 31, 2015. KB Mortgage Loan No. 1 Limited, KB Covered Bond First International Limited, Heungkuk Multi Private Securities H-19 and 30 other private securities were excluded from the consolidation due to their respective liquidation during the year ended December 31, 2015.

39. Unconsolidated Structured Entity

As of December 31, 2015, the nature, purpose and activities of the unconsolidated structured entities and how the structured entities are financed, are as follows:

Nature	Purpose	Activities	Methods of Financing
Asset-backed securitization	Early cash generation through transfer of securitization assets Fees earned as services to SPC, such as providing lines of credit and ABCP purchase commitments	Fulfillment of Asset-backed securitization plan Purchase and collection securitization assets Issuance and repayment of ABS and ABCP	Issuance of ABS and ABCP based on securitization assets
Project Financing	Granting PF loans related to SOC and real property Granting loans to ships/aircrafts SPC	Construction of SOC and real property Building ships/ Construction and purchase of aircrafts	Loan commitments through Credit Line, providing lines of credit and investment agreements
Investment funds	Investment in beneficiary certificates Investment in PEF and partnerships	Management of fund assets Payment of fund fees and allocation of fund profits	Sales of beneficiary certificate instruments Investment of general partners and limited partners

As of December 31, 2015 and 2014, the size of the unconsolidated structured entities and the risks associated with its interests in unconsolidated structured entities are as follows:

(In millions of Korean won)

	2015				
	Asset-backed securitization	**Project Financing**	**Investment funds**	**Others**	**Total**
Total assets of the unconsolidated structured entities	₩ 51,915,323	₩ 22,279,763	₩ 10,208,708	₩ 5,969,463	₩ 90,373,257
Carrying amount on financial statements					
Assets					
Financial assets at fair value through profit or loss	₩ 218,496	₩ -	₩ -	₩ -	₩ 218,496
Derivative financial assets	373	-	-	-	373
Loans	178,863	2,512,158	-	373,760	3,064,781
Financial investments	9,324,629	7,867	1,413,044	18,303	10,763,843
Investments in associates	-	-	407,319	-	407,319
	₩ 9,722,361	₩ 2,520,025	₩ 1,820,363	₩ 392,063	₩ 14,454,812
Liabilities					
Deposits	₩ 258,554	₩ 728,059	₩ 15,159	₩ 19,743	₩ 1,021,515
	₩ 258,554	₩ 728,059	₩ 15,159	₩ 19,743	₩ 1,021,515
Maximum exposure to loss[1]	₩ 13,281,642	₩ 3,768,352	₩ 3,482,225	₩ 421,864	₩ 20,954,083
Methods of determining the maximum exposure to loss	Providing lines of credit and purchase commitments	Loan commitments / capital commitments / purchase commitments and Acceptances and guarantees	Capital commitments	Loan commitments	

(In millions of Korean won)

	2014				
	Asset-backed securitization	**Project Financing**	**Investment funds**	**Others**	**Total**
Total assets of the unconsolidated structured entities	₩ 9,953,552	₩ 19,901,366	₩ 6,072,832	₩ 5,923,270	₩ 41,851,020
Carrying amount on financial statements					
Assets					
Loans	₩ 192,619	₩ 2,315,744	₩ -	₩ 252,195	₩ 2,760,558
Financial investments	564,156	13,778	912,042	17,000	1,506,976
Investments in associates	-	-	387,510	-	387,510
Other assets	2	-	-	-	2
	₩ 756,777	₩ 2,329,522	₩ 1,299,552	₩ 269,195	₩ 4,655,046
Liabilities					
Deposits	₩ 300,015	₩ 500,538	₩ 15,834	₩ 32,986	₩ 849,373
	₩ 300,015	₩ 500,538	₩ 15,834	₩ 32,986	₩ 849,373
Maximum exposure to loss[1]	₩ 4,719,103	₩ 4,581,520	₩ 3,597,876	₩ 491,313	₩ 13,389,812
Methods of determining the maximum exposure to loss	Providing lines of credit and purchase commitments	Loan commitments / capital commitments / purchase commitments and Acceptances and guarantees	Capital commitments	Loan commitments	

[1] Maximum exposure to loss includes the asset amounts, after deducting loss (provision for assets, impairment losses and others), recognized in the consolidated financial statements of the Group.

40. Finance and Operating Leases

40.1 Finance lease

The future minimum lease payments as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015		2014	
Net carrying amount of finance lease assets	₩	32,583	₩	44,138
Minimum lease payments				
Within 1 year	₩	1,983	₩	11,902
1-5 years		226		1,637
	₩	2,209	₩	13,539
Present value of minimum lease payments				
Within 1 year	₩	1,950	₩	11,632
1-5 years		222		1,609
	₩	2,172	₩	13,241

40.2 Operating lease

40.2.1 The Group as operating lessee

The future minimum lease payments arising from the non-cancellable lease contracts as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015		2014	
Minimum lease payments				
Within 1 year	₩	107,696	₩	107,806
1-5 years		92,729		90,191
Over 5 years		34,679		34,439
	₩	235,104	₩	232,436
Minimum sublease payments	₩	(1,340)	₩	(703)

The lease payments reflected in profit or loss for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015		2014	
Lease payment reflected in profit or loss				
Minimum lease payment	₩	167,053	₩	191,285
Sublease payment		(721)		(540)
	₩	166,332	₩	190,745

40.2.2 The Group as operating lessor

The future minimum lease receipts arising from the non-cancellable lease contracts as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015	2014
Minimum lease receipts		
Within 1 year	₩ 9,212	₩ 9,445
1-5 years	9,866	15,636
	₩ 19,078	₩ 25,081

41. Related Party Transactions

Profit and loss arising from transactions with related parties for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

		2015	2014
Parent			
KB Financial Group Inc.	Fee and commission income	₩ 719	₩ 273
	Other non-operating income	999	1,400
	Interest expense	2,429	1,961
Parent's subsidiaries			
KB Investment Co., Ltd.	Interest expense	590	766
KB Data System Co., Ltd.	Fee and commission income	1	1
	Other non-operating income	47	49
	Interest expense	267	345
	General and administrative expenses	14,160	13,189
KB Real Estate Trust Co., Ltd.	Fee and commission income	4	4
	Other non-operating income	41	43
	Interest expense	904	533
	Fee and commission expense	956	766
KB Life Insurance Co., Ltd.	Fee and commission income	19,591	15,118
	Other non-operating income	56	119
	Interest expense	1,151	229
KB Credit Information Co., Ltd.	Fee and commission income	187	4
	Other non-operating income	324	409
	Interest expense	197	313
	Fee and commission expense	18,442	14,829
KB Asset Management Co., Ltd.	Fee and commission income	607	472
	Other non-operating income	-	2
	Interest expense	1,148	1,724
	Fee and commission expense	835	786
KB Investment and Securities Co., Ltd.	Interest income	159	245

	Fee and commission income	3,694	3,353
	Other non-operating income	928	664
	Reversal of credit losses	11	1
	Interest expense	2,282	3,712
	Fee and commission expense	635	703
	Losses on financial assets/ liabilities at fair value through profit or loss	-	2
	Other operating expense	10	-
	Provision for credit losses	9	1
KB Kookmin Card Co., Ltd.	Interest income	3,010	2,912
	Fee and commission income	245,202	222,644
	Reversal of credit losses	416	-
	Other non-operating income	1,126	1,556
	Interest expense	5,690	7,753
	Fee and commission expense	141	338
	Provision for credit losses	415	-
	General and administrative expenses	-	180
KB Savings Bank Co., Ltd.	Fee and commission income	81	105
	Other non-operating income	15	7
KB Capital Co., Ltd.	Fee and commission income	243	129
	Gains on financial assets/liabilities at fair value through profit or loss	-	6
	Other non-operating income	89	49
	Interest expense	2	1
KB Mezzanine Private Securities Fund	Fee and commission income	203	758
Hanbando BTL Private Special Asset Fund	Fee and commission income	203	195
KB Senior Loan Private Fund	Fee and commission income	23	-
Associates			
KB12-1 Venture Investment Partnership	Interest expense	107	134
Korea Credit Bureau Co., Ltd.	Fee and commission income	3	3
	Interest expense	73	66
UAMCO., Ltd.	Fee and commission income	14	14
	Interest expense	8	12
United PF 1st Recovery Private Equity Fund	Interest income	49	-
Incheon Bridge Co., Ltd.	Interest income	12,843	13,226
	Reversal of credit losses	2	-
	Provision for credit losses	-	2
	Interest expense	436	543
Future Planning KB Start-up Creation Fund	Interest expense	-	19
KB Star Office Private Real Estate Investment Trust No.1	Interest expense	92	50
Associate of parent			
KB Insurance Co.,Ltd.	Interest income	50	-
	Fee and commission income	2,456	-
	Gains on financial assets/liabilities at fair value through profit or loss	2,761	-

	Other non-operating income	10	-
	Interest expense	164	-
	Losses on financial assets/liabilities at fair value through profit or loss	164	-
	General and administrative expenses	2,633	-
Associates of parent's subsidiaries			
Semiland Co., Ltd. [1]	Interest income	-	8
	Reversal of credit losses	-	4
KB IC 3rd Private Equity Fund	Interest expense	23	38
KB No.2 Special Purpose Acquisition Company [1]	Interest expense	-	1
KB No.3 Special Purpose Acquisition Company	Interest expense	5	6
KB No.4 Special Purpose Acquisition Company	Interest expense	25	9
KB No.5 Special Purpose Acquisition Company	Interest expense	44	4
KB No.6 Special Purpose Acquisition Company	Interest expense	66	4
KB No.7 Special Purpose Acquisition Company	Interest expense	38	-
KB No.8 Special Purpose Acquisition Company	Interest expense	21	-
KB No.9 Special Purpose Acquisition Company	Interest expense	7	-
SAWNICS Inc.	Interest expense	1	-
eClear International Co., Ltd. [1]	Interest income	18	-
SY Auto Capital Co., Ltd.	Interest expense	24	-
Other			
Retirement pension	Fee and commission income	611	448
	Interest expense	955	788

[1] Not considered to be the Group's related party as of December 31, 2015.

The details of receivables and payables, and related allowances for loan losses arising from the related party transactions as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

		2015	2014
Parent			
KB Financial Group Inc.	Other assets	₩ 41,442	₩ 465
	Deposits	324,947	30,739
	Other liabilities	54,619	224,763
Parent's subsidiaries			
KB Investment Co., Ltd.	Deposits	37,125	37,219
	Other liabilities	117	198
KB Data System Co., Ltd.	Other assets	893	1,037
	Deposits	18,028	19,790
	Other liabilities	1,242	1,214
KB Real Estate Trust Co., Ltd.	Deposits	24,025	96,087

	Other liabilities	405	651
KB Life Insurance Co., Ltd.	Other assets	1,218	1,342
	Deposits	255	57
	Debts	25,000	30,000
	Other liabilities	103	41
KB Credit Information Co., Ltd.	Other assets	183	-
	Deposits	5,864	6,766
	Other liabilities	6,226	6,193
KB Asset Management Co., Ltd.	Other assets	169	127
	Deposits	74,062	69,453
	Other liabilities	438	439
KB Investment and Securities Co., Ltd.	Cash and due from financial institutions	282	945
	Gross amounts of loans and receivables	8,438	34,997
	Allowances	3	15
	Other assets	402	327
	Deposits	117,257	105,449
	Other liabilities	5,134	8,993
	Provisions	13	4
KB Kookmin Card Co., Ltd.	Other assets	26,891	27,382
	Deposits	385,060	454,205
	Other liabilities	64,136	36,546
	Provisions	415	416
KB Savings Bank Co., Ltd.	Other assets	17	14
	Other liabilities	371	-
KB Capital Co., Ltd.	Other assets	11	5
	Deposits	741	534
KB Mezzanine Private Securities Fund	Other assets	27	167
Hanbando BTL Private Special Asset Fund	Other assets	46	49
KB Senior Loan Private Fund	Other assets	11	-
Associates			
KB12-1 Venture Investment Partnership	Deposits	5,753	9,767
	Other liabilities	4	10
Korea Credit Bureau Co., Ltd.	Deposits	19,435	24,715
	Other liabilities	22	17
UAMCO., Ltd	Deposits	815	1,654
Incheon Bridge Co., Ltd.	Gross amounts of loans and receivables	231,653	247,870
	Allowances	300	302
	Other assets	970	1,144
	Deposits	35,916	35,421
	Other liabilities	153	249
JSC Bank CenterCredit	Cash and due from financial institutions	1,225	178
Terra Corporation	Deposits	1	1
DPAPS Co.,Ltd.	Deposits	3	-
EJADE Co.,Ltd.	Deposits	12	-
Doosung Metal Co., Ltd	Deposits	1	-
KB Star office Private real estate Investment Trust No.1	Deposits	7,446	6,067
	Other liabilities	56	-
Associate of Parent			
KB Insurance Co., Ltd.	Other assets	6,503	-

	Derivative assets[1]	2,059	-
	Deposits	8,415	-
	Provisions	30	-
	Other liabilities	789	-
	Derivative liabilities[1]	219	-
Associates of Parent's subsidiaries			
KB IC 3rd Private Equity Fund	Deposits	850	1,400
	Other liabilities	9	24
KB No.3 Special Purpose Acquisition Company[2]	Deposits	-	832
	Other liabilities	-	6
KB No.4 Special Purpose Acquisition Company[2]	Deposits	-	2,500
	Other liabilities	-	1
KB No.5 Special Purpose Acquisition Company	Deposits	2,323	2,389
	Other liabilities	39	1
KB No.6 Special Purpose Acquisition Company	Deposits	4,195	4,406
	Other liabilities	68	3
KB No.7 Special Purpose Acquisition Company	Deposits	2,336	-
	Other liabilities	37	-
KB No.8 Special Purpose Acquisition Company	Deposits	2,373	-
	Other liabilities	21	-
KB No.9 Special Purpose Acquisition Company	Deposits	2,973	-
	Other liabilities	7	-
SAWNICS Inc.	Deposits	319	-
SY Auto Capital Co.,Ltd..	Deposits	1,845	-
Key management	Gross amounts of loans and receivables	2,280	2,325
	Other assets	3	3
	Deposits	4,114	18,378
	Other liabilities	29	171
Others			
Retirement pension	Other assets	264	191
	Deposits	51,920	41,412
	Other liabilities	37,969	246

[1] Notional amount related to derivative assets and liabilities is ₩ 56,798 million as of December 31, 2015.
[2] Not considered to be the Group's related party as of December 31, 2015.

In accordance with Korean IFRS 1024, the Group includes parent, parent's subsidiaries, associates, associates of parent's subsidiaries, key management (including family members), and post-employment benefit plans of the Group and entities regarded as its related parties in the scope of its related parties. Additionally, the Group discloses balances (receivables and payables) and other amounts arising from the related party transactions in the notes to the consolidated financial statements. Refer to Note 13 for details on investments in associates.

Key management includes the directors of the parent company and the executive directors (vice presidents and above) of the Bank and companies where the directors and /or their close family members have control or joint control.

Significant loan transactions with related parties for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)	2015[1]				
	Beginning	**Loans**	**Repayments**	**Others**	**Ending**
Parent's subsidiary					
KB Kookmin Card Co., Ltd.	₩ -	₩ 4,005	₩ 4,005	₩ -	₩ -
KB Investment and Securities Co., Ltd.	34,997	14,094	40,653	-	8,438
Associate					
Incheon Bridge Co., Ltd.	247,870	8,000	24,217	-	231,653

(In millions of Korean won)	2014[1]				
	Beginning	**Loans**	**Repayments**	**Others**	**Ending**
Parent's subsidiary					
KB Investment and Securities Co., Ltd.	₩ 32,995	₩ 2,002	₩ -	₩ -	₩ 34,997
Associate					
Incheon Bridge Co., Ltd.	249,362	12,360	13,852	-	247,870

[1] Transactions and balances arising from operating activities between related parties, such as settlements, are excluded.

The settlement transactions and deposits arising from operating activities with related parties are excluded and there are no other borrowing transactions.

Unused commitments provided to related parties as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)		**2015**	**2014**
Parent's subsidiary			
KB Investment and Securities Co., Ltd.	Loan commitment in won	₩ 39,062	₩ 12,503
KB Investment Co., Ltd.	Commitments on purchase of security investment	600	-
	Loss sharing agreements	1,000	-
KB Kookmin Card Co., Ltd.	Loan commitment in won	520,000	520,000
	Other commitments in won	1,000,000	1,000,000
KB Mezzanine Private Securities Fund	Commitments on purchase of security investment	18,359	18,359
KB Mezzanine Private Security Investment Trust No.2	Commitments on purchase of security investment	51,048	70,312
Hanbando BTL Private Special Asset Fund	Commitments on purchase of security investment	15,931	15,931
KB Hope Sharing BTL Private Special Asset Fund	Commitments on purchase of security investment	48,045	48,045
KB Senior Loan Private Fund	Commitments on purchase of security investment	64,964	-
Associates			

Balhae Infrastructure Fund	Commitments on purchase of security investment	18,098	21,744
UAMCO., Ltd.	Commitments on purchase of security investment	89,950	89,950
KB12-1 Venture Investment Partnership	Commitments on purchase of security investment	-	11,200
KoFC POSCO HANHWA KB shared growth Private Equity Fund	Commitments on purchase of security investment	13,040	19,000
KoFC KBIC Frontier Champ 2010-5(PEF)	Commitments on purchase of security investment	1,290	1,290
United PF 1st Recovery Private Equity Fund	Commitments on purchase of security investment	49,383	49,383
KB GwS Private Equity Trust	Commitments on purchase of security investment	-	876
Incheon Bridge Co., Ltd.	Loan commitment in Korean won	38,963	33,163
Future Planning KB Start-up Creation Fund	Commitments on purchase of security investment	8,000	16,000
JSC Bank CenterCreidt	Loan commitment in foreign currencies	117,200	-
Associate of Parent			
KB Insurance Co., Ltd.	Loan commitment in Korean won	20,000	-
Key management	Loan commitment in Korean won	223	372

Unused commitments received from related parties as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)		**2015**	**2014**
Parent's subsidiaries			
KB Investment Co., Ltd.	Loss sharing agreements	₩ 8,539	₩ 5,917
KB Real Estate Trust Co., Ltd.	Commitments on purchase of security investment	4,319	4,319
KB Life Insurance Co., Ltd.	Commitments on purchase of security investment	21,595	21,595
KB Investment and Securities Co., Ltd.	Commitments on purchase of security investment	4,319	4,319
KB Kookmin Card Co., Ltd.	Loan commitment in won	80,316	79,164

Compensation to key management for the years ended December 31, 2015 and 2014, consists of:

(In millions of Korean won)	2015			
	Short-term employee benefits	**Post-employment benefits**	**Share-based payments**	**Total**
Registered directors (executive)	₩ 987	₩ 59	₩ 632	₩ 1,678
Registered directors (non-executive)	304	-	-	304
Non-registered directors	3,943	57	2,814	6,814
	₩ 5,234	₩ 116	₩ 3,446	₩ 8,796

(In millions of Korean won)	2014			
	Short-term employee benefits	**Post-employment benefits**	**Share-based payments**	**Total**
Registered directors (executive)	₩ 1,405	₩ 63	₩ 1,162	₩ 2,630
Registered directors (non-executive)	457	-	-	457
Non-registered directors	4,860	296	3,685	8,841
	₩ 6,722	₩ 359	₩ 4,847	₩ 11,928

Significant operating transactions occurring between the Group and related parties include the establishment of deposit accounts, issuance of general purpose loans, loans on business transactions and trade receivables, and overdraft credit accounts arising from net settlement agreement between the Bank and KB Kookmin Card Co., Ltd.

Collateral offered to related parties as of December 31, 2015 and 2014, is as follows:

(In millions of Korean won)		2015		2014	
	Assets pledged	**Carrying amount**	**Collateralized amount**	**Carrying amount**	**Collateralized amount**
Parent's subsidiaries					
KB Investment and Securities Co., Ltd.	Securities	₩ 54,042	₩ 54,000	₩ 54,084	₩ 54,000
KB Life Insurance Co., Ltd.	Securities	16,263	15,000	16,326	15,000
Associate of Parent's subsidiaries	Building / Land	426,885	45,500	114,609	39,000
KB Insurance Co., Ltd	Building / Land	216,284	26,000	-	-

Collateral received from related parties as of December 31, 2015 and 2014, is as follows:

(In millions of Korean won)		2015	2014
Parent's subsidiaries			
KB Investment and Securities Co., Ltd.	Time deposits	₩ 52,000	₩ 52,440
KB Kookmin Card Co., Ltd.	Time deposits	22,000	22,000
Associate			
Incheon Bridge Co., Ltd.	Fund management account for Standby loan commitment	65,000	65,000
Key management	Time deposits and others	249	257
	Real estate	2,662	3,583

As of December 31, 2015, Incheon Bridge Co., Ltd, a related party, provides fund management account, civil engineering completed risk insurance, shares and management rights as unsubordinated collateral in respect to collateralized amount for ₩ 816,400 million to a financial syndicate consisting of the Bank and four other institutions, and as subordinated collateral in respect to collateralized amount for ₩ 201,100 million to subordinated debt holders consisting of the Bank and two other institutions.

The Bank and KB Kookmin Card Co., Ltd. are contingently liable for the payables of the Bank before the spin-off date.

42. Approval of Issuance of the Financial Statements

The issuance of the Group's consolidated financial statements as of and for the year ended December 31, 2015, was approved by the Board of Directors on February 3, 2016.

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