

YOUR FINANCIAL PLATFORM
FOR THE FUTURE

**ANNUAL
REPORT
2016**

 **KB Financial Group**

KB Financial Group Annual Report 2016

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KB ensures active and continued communication with the customers

SEAMLESS



SIMPLE

KB provides easy and simple digital financial services

Group at a Glance

KB Kookmin Bank

- KB Kookmin bank has the largest number of branches in the industry and over 30 million customers across the country: equivalent to more than half the nation's population. It aims to realize customer value not only through its financial services but also through implementation of a partnership group system between branches and enhancing cooperation with KB subsidiaries.
- The bank also stands as the leader in smart financing, with its mobile banking customers surpassing the 10 million mark: an industry first.
- Through maintenance of stability in its credit performance, KB Kookmin Bank received an A1 rating from Moody's, A+ from S&P, and A from Fitch.

KB Securities

- KB Securities is a mega financial investment company launched on December 30th, 2016 through a merger between Hyundai Securities and KB Investment & Securities. The company retains KRW 4 trillion in equity capital, KRW 100 trillion in customer assets and 3.85 million customers. As a leading investment firm with competitive strengths in a range of areas, KB Securities aims to become a lifetime partner for customers investing in capital markets.

KB Insurance

- KB Insurance joined KB Financial Group in 2015 as one of the group's key subsidiaries and covers all areas of property insurance including fire, marine, casualty, auto, long-term, and retirement, and personal pension services at local branches nationwide. The company also conducts business in the financial, real estate and service industries towards more effective management of its assets.

KB Kookmin Card

- KB Kookmin Card handles the issuance and management of KB credit, check and pre-paid cards and provides card payment services. In addition, KB encourages retailers to join KB Kookmin Card and accept KB cards in their stores, and provides customers with a variety of financial services, including long-term and short-term card loans (cash advances) and revolving services.
- KB Kookmin Card also offers mail-order insurance and travel-related services within the parameters set by the Specialized Credit Financial Business Act and other relevant laws and regulations.
- To further meet the range of needs in the market and among our clientele, KB brings auto-financing services for those looking to purchase a new car while also offering personal credit loans. In addition, KB has invested capital in Laos to expand its instalment loan business to foreign markets.

KB Life Insurance

- Since its inception in 2004, KB Life Insurance has provided insurance services through bancassurance, has set up general agencies and channels for financial consulting, direct marketing, and other sales, and established itself as a general insurance company. It is doing its utmost to provide products and services that meet a diversity of consumer demands.

KB Asset Management

- KB Asset Management has the most versatile business portfolio of domestic AM firms, extending into stocks, bonds, derivatives, raw materials, foreign assets, real estate, infrastructure, private equity, non-performing loans and other areas.
- The company develops and releases a variety of products designed to suit investor needs, and has recently launched a global AM project that includes MOUs with foreign asset management companies.
- KB Asset Management regards enhancement of its long-term earnings ratio as its primary business objective.

KB Capital

- As a KB subsidiary providing customers with auto loans and personal and corporate financing, KB Capital takes the lead in establishing a social financial safety net for retail consumers through high-quality financial services.
- The company's total assets are valued at KRW 7.4587 trillion, rising from a fifth place ranking in the capital industry in 2015 to a second place ranking in 2016.

KB Savings Bank

- KB Savings Bank provides loans and deposit services to those with less access to credit loans in the prime banking sector due to their relatively high level of credit risk and low mortgage capacity.
- The company's main deposit products include time, installment and free installment deposit accounts, while its loan product portfolio includes services for the financially marginalized such as "KB Kind Loan", "Sunshine Loan" and "Saitdol 2 Loan". The value of services offered in these three products in 2016 increased by KRW 35.7 billion over 2015 to KRW 114.3 billion.

KB Real Estate Trust

- KB Real Estate Trust focuses exclusively on real estate trusts, efficiently managing and operating customer properties and returning profits earned. Its areas of service include land, mortgages, property management, disposition trusts, agency, REITs and AMC. With its total invested capital funded by KB Financial Group, KB Real Estate Trust maintains a stable credit rating (commercial paper rated at A2+) and a solid capital base.

KB Investment

- KB Investment is an established corporate investment company managing over KRW 1 trillion in AUM and has helped with the listing of over 100 companies on KOSDAQ in the last 26 years as a leading venture capital firm. Since tapping into the private equity fund market in 2008, it has continued to expand its business in other areas as well.
- KB Investment aims to secure new growth engines for the national economy through the KRW 1.07 trillion in management.
- Major achievements include the formation of a large new venture fund and improving the scale and ranking of its asset management from No. 17 in 2015 to No. 7 in 2016.

KB Credit Information

- Founded in 1999, KB Credit Information offers services related to debt collection, lease investigation and other related areas in accordance with the Use and Protection of Credit Information Act. The company's major responsibilities include handling overdue debts in the KB financial group, and it currently stands as the nation's best credit information company in terms of the value of assets under management, profitability and range of services.

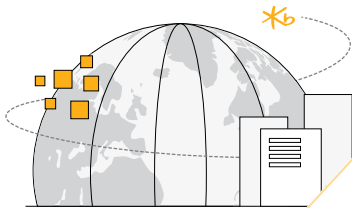
KB Data Systems

- Conducted IT assessment consulting group-wide in cooperation with bank, card and other major affiliates with an eye toward improving the Group's IT efficiencies;
- Devised a detail action plan for improving its operation functions and competencies.



SECURE

KB provides financial security that earns customers' trust



SPEEDY

KB provides newest financial technology that stays ahead of changes and innovation

Your Financial Platform for The Future

We promote ourselves as the leading financial group in Korea and a business platform to lead the future.

In 2016, KB Financial Group strategically enhanced its non-banking portfolio and expanded its market power through group-wide cooperation and synergy as it improved customer satisfaction and bolstered its competitive strengths in the industry.

In May, KB welcomed Hyundai Securities, a prestigious name in the industry, into the group, thereby created a balanced business portfolio as an organization now providing superior and comprehensive financial services through organic cooperation between 12 subsidiaries.

KB Financial Group maintained its strong fundamentals in 2016, increasing its total assets by KRW 46.6 trillion over the previous year to KRW 375.7 trillion, realizing current net income of KRW 2.1 trillion, and expanding its customer base to over 33 million persons.

CEO's Message

*We welcomed Hyundai Securities,
a prestigious name in the business, into the KB family and
through this secured an opportunity
to grow and diversify the group's business portfolio.*



Dear valued shareholders and customers

We extend our deepest gratitude to all of you for your continuous support for and trust in KB Financial Group in the past year.

In 2016 the domestic economy experienced low growth due to, among many factors, a rapid increase in household debt and the impact from restructuring of the shipbuilding and shipping industries. Greater uncertainties occurred in the global economy after Brexit and an interest rate hike by the US Federal Reserve. Despite these unfavorable conditions, KB Financial Group has made great strides in securing growth engines for the future and creating synergy across the group.

We welcomed Hyundai Securities, a prestigious name in the business, into the KB family and through this secured an opportunity to grow and diversify the group's business portfolio. We also took steps to facilitate cooperation and synergy within the group by introducing a Partnership Group (PG) system to our banking branches and opening up hybrid branches to provide services that integrate securities and insurance. At the same time, we are moving towards a "Digital KB" with the launch of our new personal finance and membership services on mobile ("Liiv" and "Liiv Mate"), and a mobile banking service abroad ("Liiv Cambodia").

Now, I would like to give you a brief summary of our financial performance in 2016.

KB Financial Group recorded net income of KRW 2.1 trillion in 2016, an increase of KRW 445.4 billion over

We believe that these improvements over the last year both in terms of profit and assets were made possible because of the loyalty and trust of our customers and shareholders

the previous year, despite a decrease in net interest margin amid a low interest rate environment and a sharp increase in the one-off cost of early retirement programs. This was due to the earnings achieved by solid loan growth, a decrease in credit cost through pre-emptive risk management, and acquisition of Hyundai Securities.

By the end of 2016, the group's assets had also increased by KRW 46.6 trillion over the previous year to KRW 375.6 trillion from the impact of the acquisition of Hyundai Securities and solid loan growth following a recovery in the housing market.

We believe that these improvements over the last year both in terms of profit and assets were made possible because of the loyalty and trust of our customers and shareholders, and concerted efforts by everyone in KB Financial Group. We remain committed to doing our utmost to deliver the best of KB through unceasing transformation and innovation.

What we expect to face this year, both at home and abroad, is far from favorable. The uncertainties caused by Brexit and the expected increase in trade protectionism in the US are placing, and will continue to place, strain on the world economy, while the domestic economy is expected to remain on a low-growth trajectory, possibly with weak demand and sluggish exports.

To overcome such adversity and lay a solid foundation for the restoration of our status as Korea's No. 1 financial group, KB Financial Group has dedicated itself in the following areas:

First, Providing our customers with the best in value

We aim to offer greater user convenience through a new set of capabilities and systems that offer unique, specialized and integrated asset management services. We are also strengthening our financial consumer protection system as a way to build on the trust our customers have placed in us.

Second, Creating a unique model of synergy to increase the group's overall competitiveness

We plan to integrate the range of capabilities of our subsidiaries to establish a joint system for sales and

marketing and further expand our customer base. We are also creating a synergy model that is unique to KB with a focus on banking and securities.

Third, Leading the development of innovative financial services for the future

We will expand investment in data analysis, robo advisors, biometric authentication and other financial technologies, and recruit additional experts from the Fintech industry.

We also plan to create a unique, successful global strategy through a focus on mobile financial platforms, non-face-to-face channels, and digital banking

And last, Remaining unceasing in our innovation to create a dynamic KB

Success in the 4th Industrial Revolution urgently requires the creation of a corporate culture with the ability to flexibly deal with the changes of our times. While it is

KB Financial Group is committed to working through these challenges by applying the wisdom of our members, and to securing KB's unique strengths and competitiveness as we systematically move forward to regain our status as Korea's No. 1 financial group.

difficult to accurately predict the future, failing to even keep up with ongoing developments will make it very difficult for the organization to achieve sustainable development. Therefore, KB will continue to drive a group-wide innovation that includes products, services, human resources and organizational culture as it strives to meet the changes and overcome the challenges in the future. Our efforts to remake the group into a more flexible, dynamic organization successfully responsive to these changes will continue in 2017.

We expect another year of fierce competition amid unpredictable business environment. Specifically, there is a paradigm shift taking place in the financial industry due to technological innovations and the emergence of alternative payment systems. Faced with these challenges, KB Financial Group is committed to working through these challenges by applying the wisdom of our members, and to securing KB's unique strengths and competitiveness as we

systematically move forward to regain our status as Korea's No. 1 financial group.

We kindly ask for your continued support and trust, and wish you and yours good health and happiness.

Thank you.

Jong Kyoo Yoon

Chairman & CEO
KB Financial Group Inc.

2016 Highlights

KB Kookmin Bank

- Serves 30.3 million customers, or over half of the nation's population, as of late December 2016
- Has offline branches and mobile/Internet banking networks meeting the highest standards in the industry
- KB Star Banking, through its world-first mobile banking products, captured the largest market share after it becoming the first in the industry to surpass 10 million customers in April 2015
- Has over 1.1 million users on Liiv, a mobile application introduced in June 2016 as part of the concept "Finance in everyday life" (as of late December 2016)
- Given an A1 rating by Moody's, A+ by Standard & Poor's, and A by Fitch, the three most prestigious credit rating agencies

KB Securities

- Enjoys a leading position in the industry as a large-scale investment bank established through a merger of Hyundai Securities and KB Investment & Securities at the end of 2016, with KRW 4 trillion in equity capital
- Has 115 effective business branches around the country that specialize in wealth management (WM) and KB's original multi-service branch strategies (as of January 2017)
- The highly competitive investment banking (IB) department remains on top for the sixth consecutive year in issuance of corporate bonds and asset-backed securities (ABS) (according to data collected by Bloomberg at the end of 2016)
- Ranked No. 1 in the industry in terms of retail bond sales (of KRW 7.5 trillion) due to development of diversified financial investment products and stronger asset management services (as of late 2016)
- Runs MTS, HTS and other highly competitive online channels, and awarded Grand Prize at the 2016 Mobile Brand Awards hosted by Maeil Business

KB Insurance

- Continually growing under the vision of becoming the most preferred insurance company with the best risk-guarantee products and comprehensive consulting services after joining KB Financial Group in June 2015
- Rated A-(Excellent) by A.M. Best, a US-based insurance rating agency, for the 13th consecutive year, due to the excellent state of its finances and management with a total of KRW 29.3522 trillion in assets and KRW 2.4356 trillion in equity capital as of the end of December 2016
- Set up special policy conditions for discounts on insurance premiums based on the use of public transport for KB Magic Car insurance, an industry-first combining of the use of public transport with car insurance benefits, through cooperation with KB Financial Group and KB Kookmin Card

- Helping to improve living conditions for children from low-income families, awarded scholarships to children orphaned in car accidents, and promoting other charity activities by incorporating the group's brand value of "hope" into social contributions

KB Kookmin Card

- Focused on customer values in management of card services, offering customized products and services on the back of KB Kookmin Card's strong asset of a live and flexible "big data" system
- Launched "KB Kookmin Alpha One Card", the market's first fintech card to overcome the limitations of mobile cards, promoted strategic cooperation with other business sectors, and improved corporate competitiveness, gearing it up to lead the fintech payment market of the future
- Ongoing development of various new business areas to secure new engines for sustainable growth, and heading to nations in Southeast Asia and other areas for further development

KB Life Insurance

- Stands as a superior insurance company with total assets of KRW 8.8 trillion as of the end of 2016, improving its channels and product portfolios with a focus on insurance products
- Has strengthened its one-stop support system at operation branches to increase customer trust. As a result, customer complaints have fallen by 19% over 2015, with the KB Life call center ranked "Excellent" by KSQI for the 11th consecutive year

KB Asset Management

- Strengthening its asset management strategies, developing customized platform services and promoting solutions suitable for an age of low growth, low interest rates and an ageing population
- Reinforced its leading position in the retirement benefit fund industry
- Is a strong No. 1 company in the alternative investment fund (infrastructure fund) industry
- Has received at least 9 different awards for its efforts in developing financial products, suggesting alternative investment plans and promoting stability through comprehensive risk management

KB Capital

- Launched "KB Cha-cha-cha", a new online platform for trading used cars and sharing price information, to gain a long-term competitive edge in auto financing
- Introduced a full application scoring system (ASS) utilizing data-based machine-learning: a first in the domestic financial industry
- Signed a contract with Kolao Group in Laos

towards establishment of "KB-Kolao Leasing", a joint auto instalment financing company, to tap into the Southeast Asian market

- Jumped to No. 2 in the capital business industry by securing KRW 7 trillion in operating assets

KB Savings Bank

- Opened up new branches specializing in loans to town market areas to meet local needs and facilitate connections between KB subsidiaries, and further promoting entry into consumer loan services
- Improved consumer access with "Good Banking" mobile application, which allows users to open accounts without a face-to-face meeting, and expanded existing one-stop loan service channels using mobile-scraping technologies
- Received 12 awards in recognition of its contribution to customized consumer-oriented services and promotion of small loans

KB Real Estate Trust

- Offers a range of products and services in real estate, mortgages, land management, disposition trusts, agency business, REITs and other areas with a stable CP credit rating of A2+ and solid paid-in capital of KRW 80 billion
- No. 1 in the industry with management of KRW 22.1 trillion in assets (excluding REITs) as of the end of December 2016, and placing over KRW 1 trillion in REIT assets under management
- Providing clients with creative ideas that lead to unrivalled real estate finance solutions, placing customer satisfaction as the top priority

KB Investment

- A corporate investment firm that set up a new venture fund of KRW 200 billion in 2016 and is increasing market presence by raising investment in new areas for growth
- Supports young start-ups and small to mid-size firms with advanced technology, making steady contributions to the discovery of new engines for growth

KB Data Systems

- Set up detailed plans to increase the effectiveness of the group's IT applications and improve its own roles and capabilities
- Outsourced part of KB Kookmin Bank's IT operations to expert entities and promoting the establishment of new IT systems for the card, insurance, capital and other non-banking sectors
- Established and operating a group-wide joint IT system (comprehensive open API)
- Set up KB-Kolao Leasing IT system, Kakao Bank risk management and call-center system, and carrying out other subsidiary-based external projects

2016 Awards & Recognitions

KB Financial Group

- Chairman's Prize at the 2016 E-daily Korea Financial Industry Awards (Financial Services Commission)
- Grand Prize at the 2016 Best-Loved Brands of Korea Awards (Chosun Biz, 6th year)
- Minister's Prize at the 4th Korea Respected Enterprise Awards (Small and Medium Business Administration [SMB], Ministry of Trade, Industry and Energy)
- Grand Prize in the Financial Group category at the 2016 National Brand Awards (Ministry of Trade, Industry and Energy)
- Listed on the 2016 DJSI (Dow Jones Sustainability Index) World (Dow Jones & RobecoSAM)
- Gold in the Sustainability Report category at the LACP (League of American Communications Professionals) Vision Awards

KB Kookmin Bank

- Best Bank at the 2016 Korea Best Brand Awards (Forbes Korea, 5th year)
- Best Private Banking for KB Private Banking Gold & Wise at the same awards (4th year)
- Best Bank at the 2016 Korea Brand Star Awards (Brand Stock, 10th year)
- Best Trade Finance Bank in Korea at the 2016 Asian Banker Transaction Banking Awards (The Asian Banker, 5th year)
- Best Custodian Bank in Korea at the same awards (2nd year)
- Ranked No. 1 on the list of Financial Companies at which Graduates Most Want to Work (Incruit)
- Best Service and Bank at the 2016 National Brand Competitiveness Index Awards (Korea Productivity Center, 13th year)
- Best Bank at the 2016 Master Consumer Confidence Of Korea Brand Awards (Korea Brand Management Association, 10th year)
- Ranked No.1 in the National Customer Satisfaction Index for Banks (First bank to win the title 10 times, hosted by Korea Productivity Center)
- Grand Prize at the 13th Korea Ethics Management Awards (Korea Academy Of Business Ethics)
- Ranked No. 1 in Consumer-friendliness in the 2016 Best Bank Rankings (Korea Financial Consumer Federation)

KB Securities

- (Formerly Hyundai Securities) Best Securities at the 2016 Customer Satisfaction Management Awards (Korea Economic Daily, 10th year)
- (Formerly Hyundai Securities) Best Hot Sector Profitability at the 7th Korea Analyst Awards in 2016 (Money Today Network)
- (Formerly Hyundai Securities) Ranked No. 2 in the Securities category on the list of Excellent Primary Dealers in the first half of 2016 (Ministry of Strategy and Finance)
- (Formerly Hyundai Securities) Best Non Face-to-face Account Opening at the 2016 Mobile Brand Awards (Maeil Business Newspaper)
- (Formerly KB Investment & Securities) Best Mobile Trading System at the 2016 National Consumer-Driven Brand Awards (Dong-a Daily)
- (Formerly KB Investment & Securities) Best Mobile Trading System at the 2016 Most Trusted Brand for Consumers Awards (Chosun Daily)
- (Formerly KB Investment & Securities) Best Investment Bank at the 2016 Capital Market Awards (Herald Business)
- (Formerly KB Investment & Securities) Best Debt Capital Market Business at the Korea Investment Bank Awards (Money Today)

KB Insurance

- Best Property Insurance at the 2016 Korea Service Awards (Korean Standards Association, 2nd year)
- Grand Prize at the 9th Korea Internet Communications Awards (Korea Internet Communication Association, 2nd year)
- Gold in the Insurance category at the 25th Dasan Finance Awards (Korea Economic Daily)
- Best Call Center in the 2016 Korean Standard Service Quality Index (Korea Management Association Consulting, 4th year)

KB Kookmin Card

- Best Customer Management in Finance and Card Business (Korea Economic Daily, 9th year)
- No.1 Brand Value in the Check Card category at the 2016 Korea Brand Star awards (Brand Stock, 2nd year)
- Best Credit Card at the 2016 Customer-loved Brand Awards (Joong-ang Daily, 2nd year)

- Best Credit Card at the 2016 Trust Brand Awards (Digital Chosun)
- Best Fintech at the 2016 Asia Today Finance Awards (Asia Today)
- CREFIA (Credit Finance Association) Chairman's Prize in the Consumer Finance category at the 2016 Korea Financial Innovation Awards (Money Today)

KB Life Insurance

- Best Call Center in the 2016 Korean Standard Service Quality Index (Korea Management Association Consulting, 11th year)

KB Asset Management

- Best Pension Fund at the 2016 Korea Fund Awards (Korea Economic Daily, 2nd year)
- Grand Prize at the 2016 Best Securities Award of Korea (Seoul Economic Daily)
- Best Fund at the 2016 Asia Capital Investment Awards (Asia Business Daily)
- Best Foreign Exchange Traded Fund at the 2016 Korea Fund Awards (Money Today)
- Best Fund at the 2016 Herald Fund Awards (Herald Business, 2nd year)

KB Capital

- Best Credit Finance at the 2016 Korea Finance Awards (MaeKyung Media Group)

KB Savings Bank

- Best Small Loan at the 2016 Korea Financial Innovation Awards (Money Today, 2nd year)
- Best Savings Bank at the 2016 Korea's Top Brand Awards (Korea Economic Daily, 2nd year)
- Best Customer-trusted Brand (Dong-a Daily, 3rd year)
- Best Savings Bank at the 2016 Customer Love Brand Awards (Joong-ang Daily, 2nd year)
- Best Brand at the 2016 Trust Brand Awards (Digital Chosun)
- Best Bank at the 13th App Award Korea (Korea Internet Professionals Association)

Vision & Strategy

Strategic Initiatives

KB Financial Group has continued growing as it strives towards its goal of joining the ranks of Asia's Top 10 & the Global Top 50 financial companies and to realize its vision of being a "global financial group leading Asia's financial industry". The group aims to stand as a leader in the industry and offer the best value to its customers through competitive advantage in the industry.

Enhancing profits through portfolio optimization

The group is

- Seeking balanced growth between key subsidiaries in banking, securities, credit card, insurance, asset management and other areas;
- Laying a solid foundation to increasing profits by securing the highest level of global competitiveness;
- Promoting its One Firm system in celebration of the launch of KB Financial Group, and taking a step-by-step approach towards establishing a "Korean-style universal bank model"; and,
- Re-establishing the portfolios of key subsidiaries, more clearly defining their positions within the group, and further improving individual competitive strengths across the board

Establishing service channels that meet changing customer requirements

KB is working to improve its integrated group-wide financial services through cooperation between local bank branches, and expanding the network of multi-service branches in banking, securities, insurance and other industries. The group plans to

- Continuously promote competitive strengths in non face-to-face channels;
- Develop products designed for online channels, increase the marketing workforce, and offer greater convenience to customers
- Offer seamless services between on- and offline channels and promote business operations that are focused on the customer

Strategies to enhance competitive strengths in global business areas

In the face of low growth and low interest rates in domestic financial markets, KB Financial Group is set to reorganize its group-wide global strategies as it continues investing, establishing a global management system and reinforcing its capacity to do business around the world. KB will

- Increase its presence in Asian markets through its Global Digital Bank and other new business models based on advanced digital technologies;

- Strengthen its pool of human resources to lay the groundwork for KB's expansion overseas, and organize education and training programs for local employees in foreign markets;

KB Financial Group is currently engaged in carrying out plans to enter Southeast Asia and other foreign markets expected to see high growth in the future. It is also making efforts to provide an organic foundation for development through group-wide support and reorganization of business models in accordance with the local conditions in existing foreign business networks.

2016 Performance

Successful merger and its implications

KB Financial Group further diversified its portfolio and enhanced synergy between its subsidiaries by welcoming Hyundai Securities to the group in May 2016 and launching KB Securities on January 2nd, 2017.

With increased strength in securities and new synergy between its banking and other subsidiaries, KB has plans for further differentiated and competitive financial products for its customers. It now stands as a total financial service group that offers deposit, fund, trust, bancassurance, and property insurance products, among others, and a range of new stock, OTC, wrap and retail debt services.

In order to improve the group's ROE, KB also aims to expand business portfolios in the non-banking sector which can complement and counterbalance future changes in bank profits under a low interest rate environment.

The expansion of portfolios in the banking sector will be conducted in a step-by-step manner in consideration of different growth strategies and business environments. The group will take a flexible approach towards M&A when a suitable candidate is found in the market that will complement KB's business strategies.

Response to industry changes

The global economy in 2016 has experienced great uncertainty following Brexit, political changes in the US and other major issues around the world. On the home front, the domestic economy is experiencing difficulties as businesses in the shipping and marine industry undergo restructuring, consumer confidence falls due to increasing household debt and other concerns. We also face a paradigm shift in the financial industry with the advent of biometrics technologies, robo-advisors, block chain technology and other innovations on the horizon.

With these winds of change in mind, KB Financial Group has taken steps to promote its non face-to-face channels as a way to lead the digital financial industry in the face of a changing landscape. These steps include Liiv, a simple-to-use daily financial platform for online banking users, and Liiv Mate, a group-wide mileage platform for all KB customers. The group has also successfully expanded its reach into global digital banking and set up a new digital banking model in Cambodia that comprehensively reflects the country's financial situation.

Directions and strategies for 2017

First, we are committed to providing the best value for our customers.

KB plans to increase its capacities and use its expertise to improve its total wealth management services through customization and enhancement of consumer convenience. The group will also promote its consumer finance system designed to enhance consumer trust.

Second, we are committed to enhancing our competitive edge through synergy between KB subsidiaries.

KB aims to combine the different capabilities of its subsidiaries, set up a joint operating system and further expand its customer base.

In addition, the group will create a new model for synergy that comes with KB's distinctive characteristics as it focuses on banking and securities.

Third, we are committed to leading the future of finance through digital innovation.

KB Financial Group is working to provide its customers with the most personalized services in the industry through enhancement of analytics. The group is taking a preemptive approach to upcoming changes in the Fintech industry by investing in and supporting startup companies and developing IT business models. As it further advances into the global economy, KB also plans to continue streamlining its current model for global digital banking.

Lastly, we are committed to a dynamic business platform by improving on the fundamentals.

In the face of low interest rates and an increased number of senior consumers, KB is set to introduce a fee-based business model to enhance competitiveness, launch a risk management system that counterbalances the effects of market changes, establish an IT system that reflects future trends, and raise flexibility in our overall business operations. While promoting meritocracy, the group plans to capitalize on its competitive strengths in key fields of business through group-wide innovation in a multitude of areas, including product offerings and business processes.

Group Senior Management (as of March 31, 2017)

Jong Kyoo Yoon

Chairman &
Chief Executive Officer

Kwi Sang Jun

Deputy President;
Corporate Investment Banking Group

Hong Seob Shin

Senior Managing Director
& CPRO

Dong Whan Han

Managing Director
& CFO

Ok Chan Kim

President & COO

Ki Hwan Kim

Senior Managing Director
& CRO

Kyung Yup Cho

Senior Managing Director;
KB Research

Chai Hyun Sung

Managing Director
& CHO

Ki Heon Kim

Deputy President
& CITO

Young-Tae Park

Senior Managing Director
& CDO

Jae Keun Lee

Managing Director
& CFO

Pil Kyu Im

Managing Director
& CCO

Dong Cheol Lee

Deputy President
& CSO

Jae Hong Park

Senior Managing Director
& CGSO

Chang Kwon Lee

Managing Director;
Head of Strategic Planning
Department

Young Hyuk Jo

Managing Director
& Enforcement Officer of
the Internal Audit;
Head of Audit Department

Jeong Rim Park

Deputy President;
Wealth Management Division

Corporate Governance

Principles

The Board of Directors (BoD) is the foremost decision-making body in KB Financial Group, and deliberates and votes on major management and business items concerning the holding company and its subsidiaries. As of the end of 2016, the BoD consists of 6 non-executive directors, 1 executive director and 1 non-standing director. The fact that the majority of the BoD is made up of non-executive directors ensures the Board's ability to keep the powers of top management in check.

The Chairman and CEO of KB Financial Group is elected at the general shareholders meeting, in accordance with the Articles of Incorporation. Prior to this election, the Corporate Governance Committee, which consists solely of non-executive directors, selects candidates, uses strict yet fair criteria to evaluate their qualifications, and recommends those selected to the general shareholders meeting for final approval.

The BoD has defined the core qualities for non-executive directors as "expertise, diversity, and representative of the shareholders". Accordingly, a pool of candidates is maintained who hold expertise in financial business, accounting, finance, law and regulation, risk management and human resources management. Also, to improve communication with shareholders, a system has been adopted that gives all of them opportunities to recommend candidates for non-executive director positions: a first in the industry. To enhance the impartiality of the selection process, the services of third-party head hunters are employed whenever necessary in the search for qualified candidates. The Non-executive Director Nominating Committee selects candidates and evaluates their qualifications in accordance with pre-defined criteria and procedures, with successful candidates recommended to the general shareholders meeting for final approval. The chairman of the Board of Directors is selected from among the non-executive directors of the Group and is responsible for convening and operating the BoD in a manner that is transparent and independent of external influence.

Major Activities in 2016

In 2016, the Board of Directors held 16 meetings in which 46 resolutions were passed and 27 reports were deliberated upon.

After approving the acquisition of Hyundai Securities in April, the BoD passed a resolution in November that approved the merger of Hyundai Securities and KB Investment Securities and laid the groundwork to improve the group's non-banking portfolios and increase profitability.

Following establishment of the "Regulations on Management Succession" in July, which set the basic rules and procedures for electing and appointing the Chairman and CEO, the BoD made further improvements to the regulations in October in reflection of the newly introduced "Act on Corporate Governance of Financial Companies" and provided a solid foundation for stable management of the group's corporate governance structure.

In addition, at the regular quarterly meetings, the BoD received business performance reports and discussed a variety of issues at hand. At the December 2016 ad-hoc meeting, management and budget plans for 2017 were finalized.

Introduction to BoD committees and their roles

BoD committees, each composed of directors with expertise in the relevant areas, perform functions as delegated by the BoD and as stipulated by law and the Articles of Incorporation.

Audit Committee

The Audit Committee audits the assets and business areas of the holding company and its subsidiaries. It also evaluates and votes on the findings of such audits and reviews the performance of the directors.

Risk Management Committee

The Risk Management Committee is the top decision-making body for risk-related issues. It formulates risk management strategies and policies on behalf of the Board identifying, measuring, monitoring, and controlling risks associated with all business operations of the group and its subsidiaries.

Evaluation & Compensation Committee

The Evaluation and Compensation Committee establishes compensation policies for the holding company and its subsidiaries, and formulates and supervises the group's compensation structures.

Non-Executive Director Nominating Committee

The committee keeps the pool of non-executive director candidates up to date and recommends candidates to the general shareholders meeting.

Audit Committee Members Nominating Committee

This committee nominates auditor candidates to the general shareholders meeting for final approval.

Corporate Governance Committee

This committee is authorized and responsible for establishing and revising plans for the succession of the Chairman and CEO of the Group and the CEOs of KBFG subsidiaries.

Our Plans for 2017

KB Financial Group will further improve the stability of its corporate governance structure and lay the groundwork for sound mid- and long-term business management towards maintaining growth, strengthening corporate values and protecting the interests of shareholders and other stakeholders.

We will continue to do our utmost to further increase the value of the group and our shareholders through a reasonable, transparent decision-making process.

Board of Directors

Young Hwi Choi

Non-executive Director

- Chairman, Board of Directors, KB Financial Group
- Member, Risk Management Committee
- Member, Non-executive Director Nominating Committee
- Chairman, Corporate Governance Committee

1969-1974 — Manager, Banking Supervision Authority, Bank of Korea
 1978-1982 — Deputy Director, Ministry of Finance
 1999-2001 — Deputy President, Shinhan Bank
 2003-2005 — President & CEO, Shinhan Financial Group

Stuart B. Solomon

Non-executive Director

- Member, Evaluation and Compensation Committee

1998-2000 — Executive Managing Director, MetLife Life Insurance
 2000-2001 — Executive Vice President and Representative Director, MetLife Life Insurance
 2001-2009 — Representative Director, MetLife Life Insurance
 2009-2011 — Chairman, MetLife Life Insurance

Suk Ryul Yoo

Non-executive Director

- Chairman, Non-executive Director Nominating Committee
- Member, Audit Committee
- Member, Risk Management Committee

1998-2000 — President & CEO, Samsung Capital
 2000-2001 — President & CEO, Samsung Securities
 2001-2003 — President & CEO, Samsung Life Insurance
 2003-2009 — President & CEO, Samsung Card
 2006-2007 — Chairman, Credit Finance Association
 2009-2010 — President & CEO, Samsung Total
 2011-2013 — Visiting Professor, College of Engineering, Seoul National University
 2015-present — Senior Advisor, Samsung Electronics

Michael Byungnam Lee

Non-executive Director

- Chairman, Evaluation and Compensation Committee
- Member, Non-executive Director Nominating Committee

1977-1979 — Project Analyst, Daewoo Industrial
 1988-1991 — Assistant Professor, California State University
 1991-1994 — Assistant Professor, Georgia State University
 1995-1999 — Director, Managing Director and Senior Managing Director, LG Academy
 2000-2007 — Executive Vice President, Human Resources, LG
 2008-2015 — President & CEO, LG Academy

Jae Ha Park

Non-executive Director

- Chairman, Risk Management Committee
- Member, Audit Committee
- Member, Corporate Governance Committee

1991-present — Senior Research Fellow, Korea Institute of Finance
 1999-2000 — Senior Counselor to the Minister of Economy and Finance
 2004-2007 — Outside Director, Jeonbuk Bank
 2007-2011 — Outside Director, Shinhan Bank
 2008-2009 — Vice Chairman, Korea Money and Finance Association
 2008-2010 — Vice President, Korea Institute of Finance
 2009-2010 — Outside Director, Daewoo Securities
 2011-2015 — Deputy Dean, Asia Development Bank Institute

Eunice Kyonghee Kim

Non-executive Director

- Member, Audit Committee
- Member, Evaluation and Compensation Committee
- Member, Corporate Governance Committee

2000-2004 — Chief Compliance Officer, Citigroup Global Markets Korea Securities
 2004-2007 — Executive Vice President & Chief Legal Officer, Citibank Korea
 2007-2008 — Managing Director & Chief Compliance Officer, Citibank Japan
 2008-2010 — Deputy CEO & Chief Compliance Officer, Hana Financial Group
 2008-present — Vice Chairperson, International Association of Korean Lawyers
 2010-present — Professor, Ewha Law School
 2016-present — Policy Advisor, National Human Rights Commission

Jong soo Han

Non-executive Director

- Chairman, Audit Committee
- Member, Evaluation and Compensation Committee

2006-present — Professor, College of Business Administration, Ewha Womans University
 2011-2013 — Member, Korea Accounting Deliberating Council, Financial Services Commission
 2013-2016 — Member, Korea Accounting Standards Board
 2013-present — Vice President, Korea Accounting Association
 2015-present — Member, IFRS Interpretations Committee

Jong Kyoo Yoon

Executive Director

- Chairman & CEO, KB Financial Group

2002-2004 — Chief Financial Officer, Chief Strategic Officer, KB Kookmin Bank
 2004 — Senior Executive Vice President, KB Kookmin Bank
 2005-2010 — Senior Advisor, Kim & Chang
 2010-2011 — CRO, KB Financial Group
 2010-2013 — CFO, KB Financial Group
 2014-present — President and CEO, KB Kookmin Bank

Hong Lee

Non-standing Director

- Senior Executive Vice President, Head of Strategy and Finance Planning Group, KB Kookmin Bank
- Member, Risk Management Committee
- Member, Corporate Governance Committee

2012 — Executive Vice President, SME Business, KB Kookmin Bank
 2013-2014 — Senior Executive Vice President, Corporate Banking, KB Kookmin Bank
 2015 — Head of the Sales Group, KB Kookmin Bank Head of the Strategy and Finance
 2016 — Planning Group, KB Kookmin Bank

Synergy Creation

2016 Performance

Active promotion of CIB

To increase synergy across the group's growth engine of corporate and investment banking (CIB), KB Financial Group runs a CIB Committee (2015) and CIB Partnership RM (2016), while strengthening the institutional basis for the business and consolidating its joint operating system.

- In terms of policy, the group focused on improving the assessment and reward system, personnel exchange program, community of practice (CoP) operations and other areas through the CIB Committee, which manages cooperation between KB subsidiaries; and,
- In terms of business operations, KB launched the joint operation systems of KB Partnership RM and Community RM, and promoted its One Firm strategy to satisfy the varying needs of its corporate customers in one place.

Introduction of the KB Partnership RM program was especially meaningful in that KB took a different course than in 2015 where it mainly focused on improvement of its institutional policies. In 2016, the group laid a successful foundation for creating synergy by incorporating the different operating systems of its subsidiaries and having each subsidiary recommend their financial products to customers of other subsidiaries.

As a result of their efforts in promoting RM and cooperation, the number of cooperative projects between KB subsidiaries has continued to be on the rise (from 114 in 2014 to 316 in 2015 and 391 in 2016), along with an improvement in quality of that cooperation.

KB's achievements and strong position in investment banking were also recognized by a variety of institutions, as shown by its No. 1 ranking in Banking in the Korean Syndication Market (2016, Bloomberg League Table) and another No. 1 ranking in Securities in the DCM Market (2016, Bloomberg League Table).

In addition, the group also opened 5 local multi-service CIB branches that are jointly operated by the banking and securities departments, and strengthened their network of cooperation to transfer the group's central CIB capabilities to local SMEs.

In terms of promoting cooperation between subsidiaries that serve SME customers, KB identified additional areas where synergy could be created and organized its business strategies accordingly.

In line with these efforts, the banking and loan sectors launched a joint marketing program for hospitals and clinics, while the banking and property insurance sectors conducted their own such joint operations as well.

It is expected that these efforts will contribute to making 2017 the beginning year for full-scale internal cooperation at KB.

KB's CIB matrix system was also launched in 2017 after one year of preparation. This system allows employees to hold multiple positions across the holding, banking and securities companies to simplify the decision-making process, and had CIB personnel operate in a unified office area.

KB Financial Group is determined to continue its efforts to grow its CIB sector into one of its key businesses and achieve greater results in 2017 than in the previous year.

On top of the original four members of KB Kookmin Bank, KB Kookmin Card, KB Securities and KB Life Insurance, the retail finance companies of KB Savings Bank and KB Capital also joined the program in March 2016, along with KB Insurance, which joined the group in the preceding year. Hyundai Securities also participated in the program after joining the group in December, which gave KB a firm basis for providing its customers with even better financial and non-financial benefits and services.

A variety of customer benefits

In order to further enhance KB customer benefits, KB Financial Group took steps to invite more of its subsidiaries to participate in the group-wide KB Star Club program while improving the quality of its services.

On top of the original four members of KB Kookmin Bank, KB Kookmin Card, KB Securities and KB Life Insurance, the retail finance companies of KB Savings Bank and KB Capital also joined the program in March 2016, along with KB Insurance, which joined the group in the preceding year. Hyundai Securities also participated in the program after joining the group in December, which gave KB a firm basis for providing its customers with even better financial and non-financial benefits and services.

In line with these changes, KB also began offering monthly installment options for payment with zero interest at all KB member stores, and free insurance plans and other improvements on daily financial services. These efforts have earned it the No. 1 spot for the past 10 years running in the National Customer Satisfaction Index (NCSI) : a first in the banking industry.

In November, the group also introduced the Liiv Mate Pointtree system, in which customers can invest in financial products, pay commissions, withdraw cash, make payments at online and brick-and-mortar stores and enjoy many other services using the reward points they have accrued.

This year, KB Financial Group aims to further improve its wealth management (WM) services through an expansion of a joint WM coverage on the banking and securities sectors, while continuing its efforts to offer better services to KB Star Club members.

Increasing of the KB customers

Thanks to these customer-oriented services and improvements made to the reward system, the number of total KB customers increased 788,000 over end of 2015 to 33,068,000 as of the end of 2016, with the number of active customers also increasing by 1,039,000 from the end of 2015 to the current 20,748,000.

CUSTOMER-ORIENTED SERVICES

33,068,000

The number of total KB customers of the end of 2016

Joint data-based products from KB subsidiaries

In 2016, KB Financial Group announced a new line-up for joint products and services between subsidiaries and group-wide products that were developed according to the findings of consumer data analysis.

The Special Contract for Discounts on Auto Insurance for Public Transit Users launched in April and the Simple Claim-filing Service for Affordable Health Insurance in August provide customers with low insurance premiums and a simplified process when submitting claims. Consumer analysis was used to design these joint services from the card and insurance sectors, and have garnered great support from KB clients.

After the acquisition of Hyundai Securities in June, KB introduced KB Able Star as a synergistic effort between its subsidiaries. This program offers stock, bond and other securities-trading services to KB bank customers and has received a warm welcome from the

market with approximately 130,000 new accounts being opened up at the bank.

KB Financial Group aims for more distinctive products in cooperation with various businesses to meet the needs of customers who have come to expect more in the way of specialized services, such as low interest rates and zero commissions.

KB will continue its development efforts for joint programs between subsidiaries as it prepares for the advent of non-financial ICT companies in the industry, improves its platform-based products and services in accordance with the increased use of non face-to-face products and services, and develop new products that reflect consumer trends.

Promotion of joint channels

To further extend synergy across the group after incorporation of the insurance and securities departments into KB in 2016, KB Financial Group is sharing customer information through the development of joint products, increasing cross-selling on outbound channels, and promoting service recommendations between subsidiaries.

- Regarding the sharing of customer information, customers can now file an application for services offered by other subsidiaries when buying multi-service products between those other subsidiaries and the bank, such as cash management accounts. This sharing of customer information gives subsidiaries increased marketing opportunities.
- KB established a cross-selling network between the card, insurance and securities departments, which were selected as testbed organizations and achieved substantial results in 2016, after promoting the cross-selling of joint subsidiary products through financial planners at KB Insurance in 2015.
- On service recommendations, KB runs a Synergy Mileage System with a total of 40 business areas including the card, bancassurance, cash management account and loan sectors, and invites employees of different subsidiaries to recommend customers to each other.

With these achievements as its foundation, KB Financial Group will continue development of its One Firm model, further promoting cross-selling on outbound channels and setting up a group-wide support system, improving its synergy mileage system and joint areas of cooperation between the sales channels of similar businesses.

Risk Management

Risk Management System

KB Financial Group's risk management system focuses on supporting the group's mid to long-term strategies and management decisions through increased risk transparency, prevention of risk transfer between subsidiaries, and preemptive measures against the fast-changing dynamics in the financial industry.

Risk Governance

The Risk Management Committee formulates risk management strategies, determines an appropriate level of risk appetite, examines the status of risk management operations and authorizes the adoption of new risk management systems, methodologies thereof, and major improvement measures.

The Risk Management Council consists of Risk Officers of the holding company and its subsidiaries. It deliberates on matters set by the Risk Management Committee and examines detailed issues related to those matters.

The Risk Management Department establishes detailed policies, procedures and business processes while managing and monitoring the group's risk and internal capital limits.

Types of risk management and achievements

Credit Risk Management

KB Financial Group defines credit risk as expected or unexpected loss that may arise from a counterparty default or a decrease in credit rating.

■ Credit policy directions

KB Financial Group sets up credit policies based on its management strategies and in consideration of the economy's outlook, business environment, recent trends in asset quality, and risk management capabilities. These credit policies become the basis for loan policies for the household, corporate and credit card sectors. The basic direction of the group's credit policies is the optimization of corporate value by maintaining asset quality at a level optimal for generation of stable profits and by minimizing volatility of mid- to long-term credit costs.

■ Credit risk assessment and monitoring

KB Financial Group operates a credit risk assessment system that follows the internal ratings-based approach (IRB) to compute the credit value at risk (VaR) of on and off-balance sheet assets. VaR calculated by IRB is the maximum loss expected because of changes in the credit ratings of the creditor or trading partner under a certain level of trust. KB Financial Group's assessment takes into account the following: creditor default, loss exposure, current maturity, and correlation with economic conditions. The group also identifies, assesses and monitors credit concentration risks that can result from excessive concentrations of portfolio assets on certain individuals or categories of borrowers.

■ Management of limits on total exposure

A total exposure limit system is employed to prevent asset concentrations in specific areas, and to optimize the group's credit portfolio through sound asset management. The Risk Management Department conducts regularly monitors and reports the results to the Risk Management Committee.

Market Risk Management

KB Financial Group defines market risk as the risk of a loss in the market value of trading positions due to changes in interest rates, exchange rates, stock prices and other similar figures in the market. Therefore, market risks related to bonds, foreign exchange, equity and derivatives holdings are identified, measured, monitored, controlled and reported to the risk management governing bodies. Market VaR is a measure of the risk in trading accounts, and points to the maximum amount of loss that can occur to the portfolio over a certain period of time and under a certain level of trust. The group compares actual and hypothetical losses to VaR calculations on a daily basis and regularly evaluates the relevance of its VaR model. For assets and subsidiaries that Market VaR cannot measure, KB manages the risk capital using the standardized methods from supervisory guidelines.

Interest Rate Risk Management

KB Financial Group defines interest rate risk as the risk of reduction in the net asset value or net interest income (NII) due to unfavourable changes in market interest rates. The group aims to maximize net interest income within acceptable risk limits and to minimize potential losses on net interest margins from adverse interest rate movements.

Liquidity Risk Management

KB Financial Group defines liquidity risk as the risk of maturity mismatch and the risk of inability to respond to an unexpected demand or supply of capital. The group maintains sufficient liquidity, ready to satisfy its obligations that arise from customer deposit withdrawals, redemption of matured debentures, and repayments of borrowings as well as to run lending, investment, and asset management operations.

Operational Risk Management

KB Financial Group defines operational risk as all financial and non-financial risks that, due to sales activities, produce a negative impact on capital. The group's operation risk management aims to satisfy regulations set forth by government authorities, and to infuse a healthy risk management culture across the management and all employees through enforcement of internal controls and improvement of the work process.

Internal Capital Management

Internal capital is required to prevent financial insolvency due to unexpected losses under the target level of trust. KB Financial

Group measures, allocates and manages internal capital for all subsidiaries of different risk types, thereby maintaining capital adequacy at the group level. The Risk Management Committee determines the group's risk appetite and assigns internal capital limits by risk type and subsidiary. Each subsidiary, in turn, manages its capital within the prescribed range.

Stress Testing

Stress testing assesses the potential vulnerability of the group's portfolio to expected macroeconomic events in order to establish appropriate counter-measures. To analyze the influence of rapid changes on the group and take pre-emptive measures, KB Financial Group conducts a stress test once a year, taking into account business cycles and economic outlooks. The results are reported to the management as well as the Risk Management Committee to be used in determining risk limits and for decision-making.

Adoption of Basel III IRB

In order to actively respond to the regulatory changes brought about by the Financial Supervisory Commission's introduction of the Basel III capital regulatory regime, KB Financial Group adopted the Basel III guidelines in December 2013 to compute its risk-weighted assets and BIS capital adequacy ratio.

The group has continuously constructed an IRB management framework that is based on a single group-wide model with the goal of implementing an internal model of credit risk assessment and management by 2016. In constructing a group-wide IRB management framework, KB has developed various risk measurement systems based on the IRB standards, upgraded the credit risk control structure, built a group-wide corporate credit ratings system, and improved credit assessment models and risk components (LGD/EAD) under the leadership of the holding company.

After a rigorous examination conducted by the Financial Supervisory Commission, KB Financial Group was given a green light to adopt IRB in December 2016. As such, KB began to use IRB from the end of 2016, starting with measurement of the group's BIS rate.

The adoption of IRB is expected to improve system establishment, data management, control structure and other risk management methods and infrastructure while raising the group's capital adequacy ratio. This move will be an opportunity for KB Financial Group to enhance its practices of and standards for risk management, international credit standing, and the level of sound management across the group.

Appointment of Chief Risk Management Officers

In accordance with the Act on Corporate Governance of Financial Companies (implemented on August 1st, 2016), the BoDs of KB subsidiaries appointed individual Chief Risk Management Officers, providing them with a guaranteed term of office. The Chief Risk Management Officer is an individual with significant

expertise with and experience in risk management who checks and controls risks in asset management and other business or trading activities independently, and is forbidden to take other main or supplementary roles in the company.

2017 Plans

Increased volatility in the global economy is anticipated due to the level of expectation for a rise in US interest rates, regional political instability and other international issues, while increasing household debt, a slow-down in the real estate market and other risk factors still exist in the domestic economy. As these latent risk factors may well turn into threats to the sound status and profitability of financial institutions, efficient risk management is required to minimize potential adverse effects. As such, KB plans to strengthen its monitoring of subsidiaries that operate loan assets to help them achieve the highest level of asset quality, and promote early risk management for subsidiaries that deal with interest rates, exchange rates, stock prices and other volatile factors to actively tackle market instabilities. In addition, the group will enhance risk management through pre-emptive measures and monitoring of domestic and overseas business expansion by the subsidiaries.

Protection of Information

KB Financial Group undertook the following actions to enhance the security of its information protection system:

The group set up a detailed regular GRC (governance, risk and compliance) management system for protection of information, selected 643 items in the Risk division and 424 items in the Compliance division for examination, and provided for new examination processes. In the Governance division, KB designated "standardization of the process of protecting information" as one of its key tasks to be consistently promoted in 2017.

In 2017, KB Financial Group plans to establish information protection standards in reference to the Information Security Management System (ISMS) and the regulations in networks, servers, databases, applications, terminals, encryption, transmission, public websites and other areas of the industry. It will also operate a research lab for the development of information protection technologies, and:

- Share operational know-how on account access management, APT detection and DDoS systems and others, and examine ideas and measures for improvement of effective system operation
- Conduct research on the AI-based fraud detection system (FDS), detection hacking and other technology areas, and review case studies on the technologies, protection against ransomware, APT attacks and other similar activities and recent industry trends
- Offer safer and more reliable services through research in biometrics, device control, network separation and other recent security issues

Digital Finance

2016 Performance

The Future Finance Department

In an effort to actively respond to the challenges brought about by the advent of Fintech, the fast-changing technology industry and consumer appetite for mobile-based financial services, KB Financial Group launched its Future Finance Department in January 2016 to provide advanced services on digital and non face-to-face channels and promote digitalization across the group.

The post next-generation system

Towards successful establishment and implementation of the post next-generation system of KB Kookmin Bank and KB Kookmin Card, KB offered substantial support for the work of the Next Generation Promotion Council, a system of cooperation between subsidiaries and the establishment of a master plan. These efforts were supplemented by the incorporation of IT systems following the acquisition of Hyundai Securities, a joint system review and other similar measures. KB also improved the assessment process for joint IT projects and subsidiary business plans, reduced IT costs across the group, promoted exemplary cases of success and improved IT synergy throughout the group.

Financial services on mobile

To effectively respond to the development of direct banks, which are expected to create and lead significant changes in the market, KB has launched “Liiv,” a simple-to-use daily banking service platform and “Liiv Mate,” a Fintech credit card platform. KB aims to secure mobile customers early with simple, convenient and fun financial experiences.

- Liiv is a simple and easy-to-use platform available to all. Existing customers and first-time visitors can take advantage of the money exchange, cash remittance and other financial services on a convenient platform. It also offers a “Dutch treat” service for eating out and other day-to-day service options, and is deemed to be a gateway platform to all KB banking services.
- Liiv Mate is the first platform jointly developed by a financial company and a communications company, offering communications content, a card payment service, and other services for daily life both on- and offline based on a group-wide mileage system. It aims to give customers a variety of new services and experiences on a non face-to-face channel.

Overseas expansion with digital technology

In September 2016, KB Kookmin Bank launched “KB Liiv Cambodia”, a mobile-based global digital bank, in line with

its business strategies for the Southeast Asian market. KB Liiv Cambodia offers a variety of financial services and pre-paid mobile phone charging and other non-financial services for everyday activities that can be paid for with a digital wallet that can be charged electronically. This model allows the group to minimize costs of business transfers to other countries, raise the local penetration rate and make entry and expansion of business in the surrounding Asian markets easier. The mobile application security system, messaging, and payment solution use an ultra-sound beacon, all of which are based on Fintech developed by domestic companies supported by KB, providing opportunities for other Korean Fintech companies to further expand into foreign markets, despite the weak mobile infrastructure of the target regions. KB plans to continue to provide a range of digital banking services through cooperation with local financial institutions and improvement of regional services, developing strategic models suited to the conditions in each country as it expands into the neighboring markets in Southeast Asia.

Setting up and maintaining a Fintech environment

KB is constantly engaged in efforts to establish an effective Fintech ecosystem. The Future Finance Department runs KB Starters Valley at the KB Innovation Hub (formerly the KB Fintech Hub Center). This project offers the following benefits to Fintech start-ups selected for cooperation and developmental support:

**PROMOTING
DIGITALIZATION**

**KB
INNOVATION
HUB**

**to promote
commercialization of the
evolving technologies**

Residential, cooperative and investment programs; the industry’s first crowdfunding match funds; the Accelerator program in which KB offers joint industry-academic financial education and other forms of support suited to companies at various development stages; information-sharing; PR opportunities at KB Fintech Day events; and other Collaborator programs.

In order to promote commercialization of the group’s new technologies and develop its ability to take on new business

operations, KB hosted the KB App Challenge 2016 and launched KB Start Lab, a Fintech research institution, exclusively using KB internal resources for the whole process from technology searches to submission of ideas to concept verification.

2017 Plans

Customization through data analysis

- We plan to conduct a general analysis of KB customer trade patterns towards a better understanding of our clientele, to establish an infrastructure that offers customized services and product recommendations, and for use in product development;
- We will analyze customer service requests, customer information and other unstructured data in combination with existing structured data towards improving customer service;
- We will seek new insights outside industry parameters using public, communications, distribution and other external data, and use the findings and analyses of social data to detect early changes in social trends while promoting social media as a new channel of communications with our customers.
- We will also expand the usage of Big data infrastructure, machine learning and other high-level analysis methods to offer improved customer experience and better financial products.

Preparations for leading the future in digital finance

- We will lead the financial markets of the future by prioritizing enhancement of group-wide synergy and efficiency. In response to the development of fintech, diversification of the group's profit structure and other major changes in the domestic and international financial markets, we plan to increase efficiency in digitalization through proactive support to the group's key strategic projects and non face-to-face channel services.
- We also plan to support KB subsidiaries in establishing their post-next generation systems, use IT integration to help KB Securities establish itself smoothly through "soft landing", and continue to enhance operational and cost-efficiency of the group's IT resources through integration of its IT infrastructure, cost monitoring and other similar systems.

The outlook on the digital financial service environment and strategic responses

The incorporation of AI and other new technologies into the financial industry brought about numerous innovative products, and these changes call for digitalization of the entire industry. It is expected that a set of new financial business models, combining

both the financial and non-financial service sectors, will soon appear on the horizon.

In 2017, KB Financial Group reorganized and expanded the former KB Fintech Hub Center into the KB Innovation Hub to promote commercialization of the evolving technologies, developing it into a specialized organization capable of all-round support from the planning to development stages through incubation and R&D. In the course of these efforts, the Future Finance Department will promote digitalization across the group along with a variety of other related projects to get ahead in the fast-changing industry environment.

Social Contributions

KB Financial Group

KB Economics and Financial Education

In 2012, KB Financial Group designated economics and financial education as its key social contribution project and has been using its industry experience and expertise as the nation's leading financial group to conduct a variety of educational programs, including school visits, student invitations, education camps, and online courses.

The group provides middle and high school students with an in-depth economic and financial course through a total of 8 programs in which volunteer employees visit participating schools and share their expertise, with a total of 524,000 students receiving instruction as of the end of 2016. KB's online programs are offered free of charge for toddlers to new graduates and office workers. Interested persons are welcome to visit the KB Foundation website at www.kbfoundation.or.kr and gain access to more than 150 lessons on economics and finance.

Supporting Youth Development

KB Financial Group runs a variety of programs aimed at helping the next generation of future leaders develop sound minds and discover their hopes and dreams. These programs include KB Youth Music College, which helps talented but socially isolated young people receive professional music training from universities participating in the program, and KB Hope Camp, which offers young persons with disabilities practical opportunities to plan their futures through socializing, mentoring, and camp activities.

KB Star Dream Volunteers

KB Star Dream Volunteers is an organization involving all employees in the group, engaging them in community service activities for the socially marginalized, including youth in need, seniors living alone, and those with physical disabilities, to lead lives of hope for a better future. Also included are community programs aimed at protecting neighborhood environments. As of the end of 2016, the total number of volunteer hours spent helping local communities exceeded 370,000, or an average of about 12 hours per employee.

HELPING
LOCAL
COMMUNITIES



12h/1PERSON

the total number of
volunteer hours spent
helping local communities
exceeded 370,000

Support for Multicultural Families and other Non-profit Activities

The group also engages in social contribution programs that aim to help multicultural families establish their independence and that support the growth of underdeveloped Asian countries. KB Rainbow Love Camp is an expression of the group's dedication to providing children from multicultural families greater access to economics and financial education and other cultures through interaction with KB employees.

People's Health-Smart School assists senior citizens at high risk of developing dementia to receive education on prevention and mitigation of the disease, and the group engages in a host of other social contribution activities to support the disadvantaged and vulnerable in society.

KB Kookmin Bank

KB Kookmin Bank has launched four strategies for its social contribution activities: provide better opportunities in life, work with local communities, promote the culture of sharing in society, and practice sharing around the world. To live out its mission of creating values for the next generation and making development harmonize with local communities, KB engages in the following activities:

- KB Star-B Dream Project, in which KB Kookmin Bank uses an annual budget of KRW 5 billion to provide scholarships, tutoring, mentoring and other personalized education programs to underprivileged students and those from multicultural families
- Traditional Market Sharing, where KB Kookmin Bank purchases products at traditional markets with coupons during the Lunar New Year and Korean Thanksgiving holidays and donates them to those in need, thereby benefiting both local markets and underprivileged families
- Hope Relay, in which KB organizes regular visits from vehicles equipped with washers and dryers and carrying food to 8 low-income districts around the nation
- Medical Care for Young Cambodians with Heart Disease, where KB invites Cambodian children suffering from heart conditions to Korea for free surgery and medical care.

KB Kookmin Bank operates a website (<https://withkb.kbstar.com>) where visitors can post stories of their neighbors in need and help out at the same time. In 2016 alone, 6,823 people took part in charity activities in response to 36 stories and requests posted in such a way. In addition, KB Kookmin Bank and its employees joined in the People's Hope Star program, where employees banked

up Hope Stars (each worth KRW 1,000) for every hour of volunteer activity and donated them, with the bank matching the funds.

KB Securities

Employees of the former companies of KB Investment & Securities and Hyundai Securities took part in a variety of joint community service programs:

- (Former KB Investment & Securities) Rainbow Classroom, begun in 2009, builds libraries and playrooms at elementary schools in rural or remote areas. The program has so far provided support for 10 districts in and outside the country since then. In 2016, Rainbow Classroom built educational facilities at a local childcare center in Andeok, Jeju, and a multicultural childcare center in Yang-cheon District, Seoul. These support activities aim to deliver messages of hope associated with the image of a rainbow and help children in urban slum areas to become responsible members of society. The donation of audio books recorded by volunteer employees was especially meaningful as alternatives to the inadequacy of basic education in many multicultural families (Employees of Hyundai Securities also joined in the recording and construction activities in Jeju).
- (Former Hyundai Securities) All 96 local branches took part in a variety of volunteer activities from donating cooler/heaters and daily necessities, visiting seniors living alone, improving living environments in neighborhoods, and taking care of babies, children, senior citizens, those with disabilities, multicultural families and others in need. The employees have also joined efforts with Jangheung County and helped the local community through donation of Dream Houses to low-income families.
- (Former KB Investment & Securities) Happy Food provides foodstuffs, purchased with employee donations, and economics and cultural classes to socially marginalized families towards helping them attain greater independence.
- (Former KB Investment & Securities) Extending a helping hand to the environment and overseas, KB is contributing to society through donation campaigns for hand-knit wool hats and handmade toys to newborns and children in underdeveloped countries, blood drives and activities to protect national and ecological parks.
- (Former KB Investment & Securities) Employees participate in regular volunteer activities including free meal services at community welfare centers, job training at disability rehabilitation centers, with former Hyundai Securities employees joining in the donation of 10,000 charcoal briquettes to families and districts

lacking sufficient energy sources, making kimchi with families and donating it to free meal service centers, and other volunteer programs run on a regular basis.

KB Insurance

KB Insurance puts its slogan of “Sharing hope with the people” into practice by infusing its brand promise of “Hope” into a variety of CSR activities. Pursuing the three core strategic tasks of supporting the young, contributing to society together with members of the community, and cultivating a corporate culture of sharing and participation, KB Insurance involves itself in activities seeking to improve living conditions for the young, engages in regular volunteer activities, funds medical treatment for children with scoliosis and welfare centers for firefighters, and provides scholarships for children orphaned by auto accidents in addition to a variety of other programs. Each year, an average of 14,000 employees and their family members join in 186 local volunteer groups, bringing, in 2016, the total number of hours volunteered to 34,000. The “KB Hope Volunteering Festival” is held in May and December every year, and employee contribution activities are evaluated and managed through the “Hope Mileage” system.

Construction of houses for those without homes, covering medical treatment for kids with scoliosis, establishment of welfare centers for firefighters, setting up economics education camps for multicultural families and other activities are funded by the KB Hope Sharing fund, to which the company and its employees donate according to a matching grant system.

KB Kookmin Card

KB Kookmin Card carries out a variety of community service activities with the full participation of its employees and with a focus on sharing hope and dreams with society, and the youth and multicultural families in particular:

- Youth Economics and Financial Education, which is a core social contribution program launched in 2011 and provides basic economic and financial classes to an annual average of 9,000 elementary, middle and high school students (52,250 in aggregate). Taught by seasoned employees in a manner adjusted to the level of different student brackets, the classes focus on helping young people form a rational consumption mindset using examples of daily economic activities.
- Share Thoughts & Add Love, which supports the implementation of social contribution ideas suggested by our customers through online channels.

- Junior social worker education, support with education on gardening at local childcare centers and 6 other related activities
- Programs for employees at experience centers aimed at better understanding the needs of the blind and pottery coloring, a color psychology program, for those with significant disabilities at Amsa Rehabilitation Center
- Support for an employee camping club in organizing camping trips for children from low-income families and plastic model assembly activities during its monthly visit of single mother facilities since 2013
- KB Kookmin Card Shooting Star Soccer Class for children from low-income families, taught by members of an employee soccer club during the weekends

KB Life Insurance

- Meal distribution at senior welfare centers, environmental volunteering, and support for events at local welfare centers
- Blood drives in partnership with the Korean Red Cross, and donations of bread
- Volunteer activities at the City Pyeonghwa Welfare Center and Kkottongnae Welfare Center in Gapyeong
- Cleaning and maintenance activities at Han River Park, No-eul Park and Saetgang Ecological Park

KB Asset Management

- Designation of the last Wednesday of every month as a community service day from 2016, and volunteer activities organized by the main branches
- Meal services and monetary support for meals for low-income seniors since 2006

KB Capital

KB Capital is continuing its efforts to provide support and benefits for the youth, and volunteer work for local communities.

- Stationery, book sets and other necessities for children at local childcare centers
- Distribution of charcoal briquettes, neighborhood cleanups and other volunteer activities for low-income families

KB Savings Bank

- Nursing products donated to multicultural families and cultural books to students in the neighborhood, in celebration of the 4th anniversary of the establishment of the company

- Support for Children's Day event at a daycare center for multicultural children
- Weekly volunteer activities where all employees join in to wash dishes and distribute food, and monetary support to the Home of St. Paul Hasang, a free meal distribution center at Garak Market
- Street cleaning in areas near each branch and on the trails around Namhan Mountain Fortress

KB Real Estate Trust

KB Star Dream Volunteer Group carries out work support activities, engages in donating and participates in the following community service programs according to the vision "Business management with social sharing and responsibility":

- Youth Dream Project, where, since 2008, employees have been making regular visits to the Dong-myung Child Welfare Center and the Seoul SOS Support Center, donating recommended books to students and helping them with their school studies
- Regular visits to welfare centers for those with mental disabilities or autism, serving meals and delivering monetary donations
- Regular donation of baby necessities to baby adoption centers
- Regular collection and delivery of monetary contributions by employees

KB Investment

- Street cleaning activities in the company district
- Volunteer activities at sanatoriums
- Delivery of charcoal briquettes to low-income families

KB Credit Information

- KB Credit Information has launched a monthly volunteer day and runs volunteer programs through which employees serve free meals at local welfare centers every month.

KB Data Systems

Since its foundation in 2008, the KDS Volunteer Team has been engaged in a variety of social activities:

- Distributing meals two or three times a month and delivering traditional rice cake twice a year to senior welfare centers, making yearly visits to seniors with limited mobility and helping during day-out activities
- Monthly vocational training support at work rehabilitation centers
- Food delivery and day-out events at refuge centers for foreign wives and teenagers during Korean Thanksgiving and the Lunar New Year holiday

Operation Review

In 2016, KB Financial Group laid the framework for becoming a first mover in digital finance and promoted cooperation and creation of synergy across the group.

The group's banking sector has witnessed continuous growth after introducing a partnership group system and promoting cooperation between branches, while KB Securities launched a triple employment system in WM and CIB in coordination with KB Kookmin Bank and KB Financial Group towards provision of better total wealth management services to its customers.

KB also attracted a large number of new customers to its mobile financial services as a result of a range of investment and support activities aimed at making the group the leader in the evolving financial market of the future.

KB Financial Group continues to place the highest priority on customer value and is committed to leading the industry not only as evidenced by its financial figures but also in all other areas of its business.

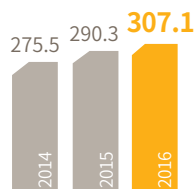
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2016 Financial Highlights by Subsidiary

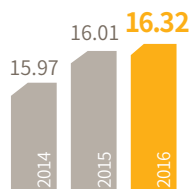
*b KB Kookmin Bank

- Total assets grew 5.8% from 2015 to KRW 307.1 trillion;
- BIS ratio improved 0.31%p to 16.32%;
- NPL ratio decreased 0.36%p to 0.74%.

Total Assets
(KRW in trillions)



BIS Ratio
(%)



*b KB Securities

- On December 30, 2016, Hyundai Securities Co., Ltd. merged with KB Investment & Securities Co., Ltd. and changed the name to KB Securities Co., Ltd.

Total Assets
(KRW in trillions)



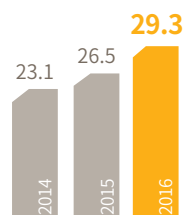
AUM
(KRW in trillions)



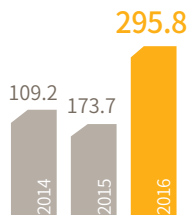
*b KB Insurance

- Total assets grew 10.6% to KRW 29.3 billion;
- Net income jumped 70.3% to KRW 295.8 billion;
- Direct premiums written increased 3.3% to KRW 9,424.5 billion.

Total Assets
(KRW in trillions)



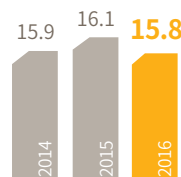
Net Income
(KRW in billions)



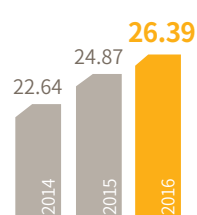
*b KB Kookmin Card

- While total assets decreased 2.3% to KRW 15.8 trillion, card transaction volume increased 12.3% to KRW 106.5 trillion;
- Adjusted Capital Ratio improved 1.52%p to 26.39%.

Total Assets
(KRW in trillions)



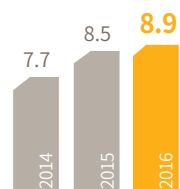
Adjusted Capital Ratio
(%)



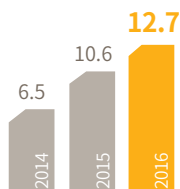
*b KB Life Insurance

- Total assets increased 4.7% to KRW 8.9 trillion;
- Net income rose 19.8% to KRW 12.7 billion;
- ROE improved 0.43%p to 2.24%.

Total Assets
(KRW in trillions)



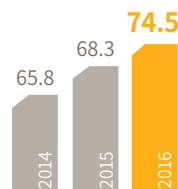
Net Income
(KRW in billions)



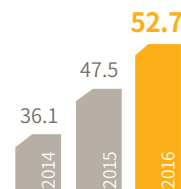
*b KB Asset Management

- Operating Income increased 9.1% to KRW 74.5 billion;
- Net income improved 139% to KRW 58.8 billion;
- AUM increased 10.9% to KRW 52.7 trillion.

Operating Income
(KRW in billions)



AUM *
(KRW in trillions)

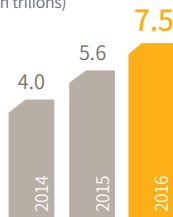


* Including discretionary assets

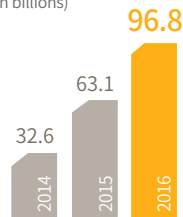
*b KB Capital

- Total assets increased 33.9% to KRW 7.5 billion;
- Net income rose 53.4% to KRW 96.8 billion;
- Operating revenue grew 34.1% to KRW 265.1 billion.

Total Assets
(KRW in trillions)



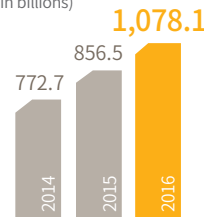
Net Income
(KRW in billions)



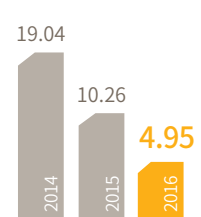
*b KB Savings Bank

- Total assets increased 25.9% to KRW 1.1 trillion;
- NPL Ratio decreased 5.31%p to 4.95%;

Total Assets
(KRW in billions)



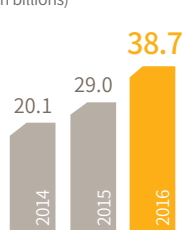
NPL Ratio
(%)



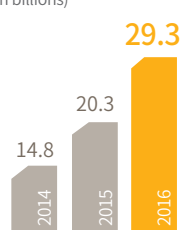
*b KB Real Estate Trust

- Operating Income increased 33.4% to KRW 38.7 billion;
- Net income grew 44.3% to KRW 29.3 billion;
- Commission Income improved 38.9% to KRW 59.3 billion;
- Assets under management remain the largest in the industry at KRW 22.1 trillion.

Operating Income
(KRW in billions)



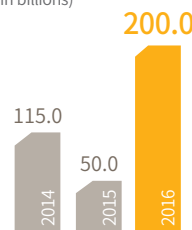
Net Income
(KRW in billions)



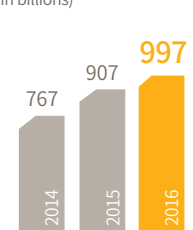
*b KB Investment

- The amount of venture funds under management jumped 10 notches from 17th to 10th in the industry;
- Total Funds Raised rose 300% to KRW 200 billion;
- Investment increased 9.9% from KRW 90.7 billion in 2015 to KRW 99.7 billion in 2016.

Total Funds Raised
(KRW in billions)



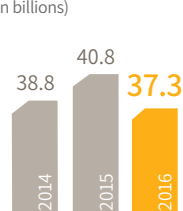
Investment
(KRW in billions)



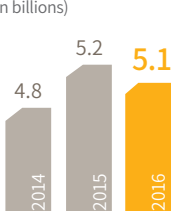
*b KB Credit Information

- Total commission revenue decreased 8.6% to KRW 37.3 billion;
- Debts recovered for KB subsidiaries jumped 147% from KRW 238.3 billion in 2015 to KRW 349.3 billion in 2016;

Commission Revenue
(KRW in billions)



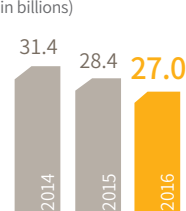
AUM of the Group Subsidiaries
(KRW in billions)



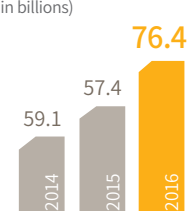
*b KB Data Systems

- Total assets decreased 4.9% to KRW 27 billion;
- Total Revenue increased 33.1% to KRW 76.4 billion.

Total Assets
(KRW in billions)



Total Revenue
(KRW in billions)



Retail Banking

Customer service enhancement and value-up in PG

In 2016, the Sales Planning Department implemented reforms to its sales system and provided for multiple customized financial services in response to market changes and varying consumer needs.

Towards attaining the highest level of competitive strengths in the sales and marketing sectors, it is establishing priority on customer and on-site services, and is:

- Promoting the KB Wise work hour system, customer service by reservation, measures to ease congestion at sales windows, and establishment of digital windows and Starclubs & Loan Centers;
- Introducing a variety of programs to implement value-up in the Partnership Group (PG) system through promotion of business in corporate financing and foreign exchange, cooperation within the PG system, and the establishment and dissemination of an outbound marketing model.

Customized service with KB subsidiaries

In 2016, KB Kookmin Bank began providing new customer-focused products and sales support at local branches to further build its reputation of maintaining the highest consumer satisfaction for the last decade.

The bank, in cooperation with other KB subsidiaries, launched a variety of products designed to satisfy consumer needs, including:

- The “KB Middle ☺ Fund Portfolio”, a fund-related product for profit stability;
- Health insurance products in cooperation with KB Life Insurance, including one that offers coverage for the elderly and those with pre-existing health conditions;

These efforts have been well-received by consumers, and earned the bank recognition through :

- the Most Trustworthy Financial Institution for Consumers Prize awarded by the Korea Finance Consumer Federation,
- best scores in all service areas in the Financial Consumer Protection Assessment conducted by the Financial Supervisory Service,
- and consecutive No. 1 rankings for ten years in the annual National Customer Satisfaction Index survey, which is an unprecedented achievement in the nation’s banking industry.

KB Kookmin Bank also introduced “Golden Life Banking”, a one-stop mobile platform service specifically designed to give senior customers easy access to online financial services through simpler designs and larger characters. In addition, and in cooperation with Kakao Plus friend Service, the bank launched an information service on travel, shopping, health, leisure and other customized topics geared towards senior customers on the KakaoTalk messenger program.

Wealth Management

KB Kookmin Bank introduced a triple employment system with KB Financial Group and KB Securities and set up an IPS (Investment Product and Service) division within KB Kookmin Bank and KB Securities to promote wealth management (WM), which is one of the group’s key business areas. Through this cooperation, it is expected that:

- Expert training will be promoted through establishment and implementation of career development programs (CDP) and group-wide education in WM;
- WM product sourcing and cooperation will increase through establishment of a product-specific relationship manager (RM) system in the capital markets and a group-wide consolidated product supply process; and,
- Global asset distribution strategy and portfolio profitability will be promoted by enhancing cooperation in overseas & alternative investments and other global project research, while the customer-focused portfolio WM service will be expanded through establishment of a due process that reflects customer revenue in a timely manner in order to enhance management of portfolio profitability; and
- KB Securities’ “WM Transformation-focused long-term development model” will be further promoted, in which a performance-based grading system in private banking (PB), a training program, merit-based payment and other similar measures help stabilize the group’s sales structure and focus its wealth management on profit generation.

Corporate Banking

The year 2016 was characterized by low growth, increased uncertainty, a slowdown in the global financial markets, decreased competitiveness in major industries, and risk transfers in large order-based production companies and other business areas.

To overcome these market issues, the bank’s CIB (Corporate and Investment Banking) division focused on enhancing management

system efficiency by: improving its asset portfolio, return on assets (RoA), return on risk-weighted assets (RoRWA) and various profit sources; investing in selected prime assets; promoting pre-emptive asset reduction in industries where a higher potential for credit risk exists; and expanding the bank's relationship management (RM) capacity into non-interest sectors and other KB subsidiaries.

In addition, the division plans to establish a solid RoA management system for effective management of profits, and introduce a RoRWA management system for effective management of risk-weighted capital.

The CIB division of KB Kookmin Bank is not limiting its operations to domestic banking, but is also focusing on expansion to joint projects with other subsidiaries and business opportunities overseas.

SME Banking

In 2016, KB Kookmin Bank provided consulting services to small and medium-sized enterprises (SMEs) with excellent financial records to help make them long-term customers of the bank, provided job training to the self-employed and created products and jobs for SMEs and independent businesses. As a result, over KRW 50 trillion in SOHO (small office home office) lending was done by the bank in April 2016: also an industry record.

To further enhance its business in the SME and SOHO areas, the bank plans to:

- Attract further customers, enhance customer management and promote qualitative growth;
- Establish a customer-focused profit management system and improve comprehensive profitability;
- Improve non-price service offerings, business system/process at local branches and support sales activities;
- Develop personalized SOHO products and products based on cash flow, and create a competitive product line-up;
- Enhance cash management services (CMS), establish an effective system of cooperation with other subsidiaries and improve strengths for future growth; and,
- Provide systematic training on corporate finance to employees, expand infrastructure and set up a merit-based sales system.

Global Operations

Despite growth of total assets to USD 7 million and current net income to USD 5 million in 2016, KB Kookmin Bank's Hong Kong subsidiary, as a small corporation, faced limitations in lending

NO.1
Best consumer bank
 Ten-time receiver of the No.1 ranking in the National Customer Satisfaction Index: an industry record

10 TIME

ONE
One Firm, One KB
 A customer-focused, one-stop WM (Wealth Management) solution with a triple employment system and WM IPS divisions

7 USD BILLION
5 USD BILLION
Establishment of Hong Kong branch
 An outpost for creation of synergy and expansion in Asia USD 7 million in total assets, USD 5 million in current net income

and other activities, local regulations and high costs compared to business scale. To properly deal with these issues and raise sales capacity, it applied for a full banking license from the Hong Kong Monetary Authority (HKMA), receiving final approval on October 17, 2016, opening as the Hong Kong branch of KB Kookmin Bank the same day.

The branch continues to provide securities products and other services offered by the former subsidiary, but now also promotes customer base diversification, corporate banking, and cooperation with the headquarters, domestic branches, international financial organizations and overseas financial authorities. It is set to function as KB's overseas treasury center by providing low-cost financing, forming and participating in a syndicated loan facility in cooperation with overseas financial institutions, and expanding its securities business and other global investment banking capacities.

International Customers

KB Kookmin Bank established the Foreign Direct Investment Center in Gangnam, Seoul to attract more of the increasing number of foreign investors with its one-stop services and foreign investment institutions in law, taxation, finance and other investment-related areas.

- The Center is an effective way for the bank to establish a solid reputation as a provider of total financial solutions to individual and corporate foreign investors, and to improve profit and performance by enhancing its competitive strengths over other banks in the market.

In addition, the bank expanded operations at its weekend overseas remittance centers, financial consulting booths, foreign language services on non face-to-face channels and other services designed for foreigners while continuing to develop specialized products and multi-language guidebooks.

Foreign Exchange Department

The Mobile KB ACCOUNT-FREE Remittance Service from KB Kookmin Bank allows users to receive money without needing a bank account. This service only requires the recipient to submit a PIN number and personal identification to receive money overseas at KB's foreign branches, branches of local KB partner banks, pawnshops and convenience stores in partnership with these local banks, etc. It also provides convenient after-remittance service and demand is expected to grow.

KB Kookmin Bank's company-wide interest and support for trade

financing and other foreign exchange services, as well as its high performance and customer service have all been recognized and praised by many institutions. The bank received the Best Trade Finance Bank Prize for five consecutive years (2012-2016) at the Asian Banker Transaction Awards hosted by the Asian Banker. KB Kookmin Bank will continue providing sophisticated products and services befitting of the premier bank in trade finance.

Trusts

The former Trust Division was reorganized and became the Trust Pension Group on January 1, 2017 to promote marketing and develop new products, as well as other effective responses to changes in the market.

The total assets under management were valued at KRW 26.7 trillion in 2016 (a 15.6% increase from the previous year), with commission revenues coming in at KRW 145.4 billion while the Trust Pension Group held 25.1% of bank-sponsored money market funds (the largest share of the market) due to expansion of PET, ETN and ETF trust funds and introduction of a variety of new trust investment products. The Trust Pension Group will strengthen its market-leading position through analysis of conditions in domestic and foreign investment markets, providing for premier investment products and securing competitive strengths in the domestic trust market.

Capital Markets

KB Kookmin Bank successfully launched a USD 500 million issue of five-year covered bonds in January 2016 after an industry-first roll-out of covered bonds the previous year. This was a rare move in that bonds were issued at an interest rate 5bp lower than initial guidance, with such confidence resulting in a very small gap between the bank's rate and the rates of covered bonds issued by banks in Australia, Canada and other developed nations.

The issued bonds were backed by 13,160 mortgages as cover pool assets : 88.3% with hybrid rates, 11.5% with floating, and the remaining 0.2% fixed Mortgages based in the Seoul Metropolitan area made up 83.2%, while the delinquency rate was 0.3%.

KB Kookmin Bank's covered bonds received a Aaa credit rating from Moody's and AAA from Fitch. Market investors give favorable reviews to the bank for its practice of securing sufficient mortgage assets and providing the related information for public viewing in accordance with related domestic regulations.

KB Kookmin Bank's successful issuance of covered bonds stands out as a benchmark-worthy technique for new development for others in the industry.

Foreign currency bonds

KB Kookmin Bank successfully issued USD 500 million in 3-year fixed-rate bonds in foreign currency after previously issuing such bonds in 2014.

The interest rate was calculated at 1.724%, or 0.875%p higher than the US Treasury Bond Yield (T3). Although lower than the credit spreads of existing 3-year bonds issued by major commercial banks, demand was high. USD 1.6 billion from 90 institutional investors poured in, with active participation by Central banks and American investors, who are normally rarely seen in Korean bank-issued foreign currency bond markets.

Smart Banking

- Market Share of Internet Banking
23.9% with 21,247,207 registered users
- Market Share of Smart Banking
20.9% with 12,756,353 registered users
- ※ Market shares based on data from the following six banks:
KB Kookmin, Shinhan, Woori, KEB Hana, IBK, NH Nonghyup

Improvement of services through corporate reorganization

The Future Channel Group of KB Kookmin Bank expanded and reorganized its corporate structure into one unit and four departments, including a Smart Strategy Department. It is expected that the capacity and competitive strengths of its non face-to-face channel will be further enhanced by the operations of each department in establishing online banking strategies, managing websites and mobile applications, online sales, data analysis of online banking, and non face-to-face customer management in financial services.

Smart banking product and services

- The Fund Smart Search Service provides users with personalized search results, not by listing data on individual items such as profitability, volatility risk and the scale of fund operations, but through quantitative scoring that reflects a range of customer needs as a composite variable. The service then suggests the funds most suited to each customer and lends a boost to fund marketing and asset management.

10 LANGUAGES

DIRECT
Foreign Direct Investment Center
Products designed for foreign investors and guidebooks in 10 languages

5 CONSECUTIVE YEARS

BEST
High performance in trade finance
The Best Trade Finance Bank in South Korea for five consecutive years at the Asian Banker Transaction Awards

NO.1
Leading position in the trust market
Commission revenue of KRW 145.4 billion, leading the market with a 25.1% share of money market funds sponsored by commercial banks

145.4 BILLION
25.1%

- KB Military banking service provides services designed for military personnel and their families.
- KB DIY Installment Deposits is a non face-to-face channel product allowing subscribers to choose the benefits they like (such as preferential interest rates or additional services) and design their own savings plans.
- KB Couple Deposit Book is a joint deposit account that allows multiple users to deposit or withdraw, share transaction records and conduct other joint activities on mobile.

Other non face-to-face channel products for daily use were also well received during moments of truth (MoT) with customers. These products include: KB Star Alert, a complimentary mobile application that provides real-time transaction records to 2.623 million subscribers; Liiv, the daily finance mobile platform with 917,000 subscribers; and KB My Money, a consolidated asset management platform with 39,000 subscribers (subscriber data collected at the end of 2016).

The Increased security and convenience of smart finance

KB Kookmin Bank was the first bank to introduce blockchain technologies and begin using robo-advisors in the Korean banking industry. It also launched a non face-to-face personal identification document storage system using blockchain technologies, a simple-to-use identification system that does not require a public key certificate or a one-time password (OTP), and a simplified and consolidated authentication service that increases customer satisfaction with security and convenience.

IT market positions and future strategies

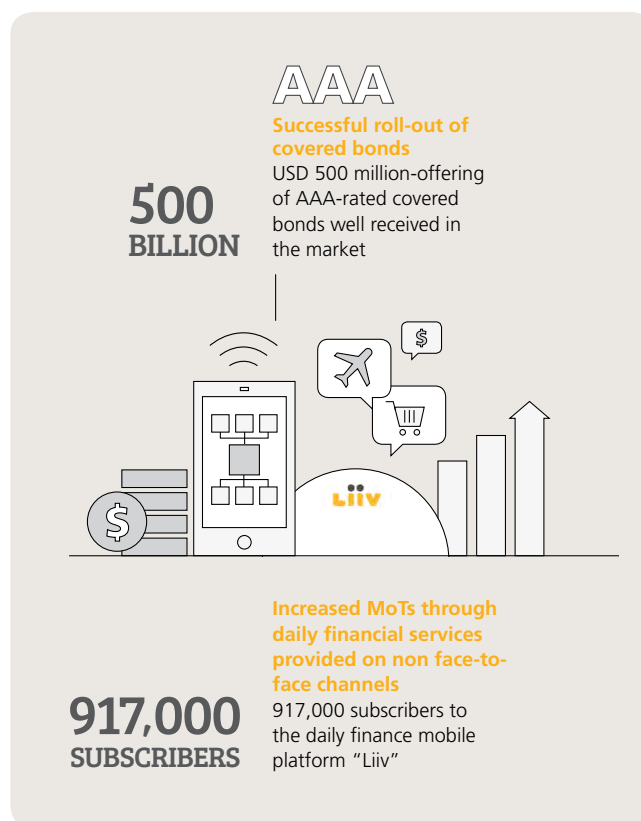
Towards enhancing its competitive strengths in IT and leading the age of integration and convergence between finance and information technologies, KB Kookmin Bank has launched the following projects related to IT governance:

- Enhancement of IT infrastructure and governance system
- System improvements through the use of cloud computing and virtualization technologies
- Plans to establish a next generation post next generation) IT center by 2020
- Improvements to the purchasing process for IT products towards introduction of infrastructure
- Organizational support for one-stop business operations
- Increased IT transparency and efficiency
- Training of IT technicians
- Promotion of strategic outsourcing

KB Kookmin Bank is committed to further enhancing research and development in big data, virtualization, cloud computing, open API, blockchains and other new IT technologies to improve corporate strengths in the financial IT areas that are key for mid- to long-term development. At the same time, the bank will promote cooperation with fintech companies, support the decision-making process of management, develop customizable products and services in a timely manner and improve its overall capacity for sales.

Development of business in the next-generation IT sector

The next-generation IT system project is the bank's key infrastructure project in which it is designing its IT system for the future, implementing a flexible platform based on new information technologies, and providing customer-focused digital financial services. Strategic consulting, analysis of overseas best cases, and the 21 tasks determined through examination of requirements from KB subsidiaries will all be carried out during the first half of 2017 after the related execution process and budget plans are thoroughly reviewed.



2016 Performance

In 2016, KB Investment & Securities was reborn as KB Securities when it acquired Hyundai Securities. This acquisition brings into KB Financial Group the superior level of competitive strength possessed by the former Hyundai Securities, as well as its unparalleled capacities in retail business, a nationwide local branch network and advanced management infrastructure. For its part, the former KB Investment & Securities brings its highly-developed investment banking and wholesale business.

As one of the group's key subsidiaries, KB Securities offers investment solutions to suit customer needs through total financial services in cooperation with banks and other key subsidiaries of the group.

Corporate Reorganization

At the end of 2016, KB Securities reorganized its corporate structure to refocus on four business areas and the growth strategies for new areas of business. As a result, the company has been able to greatly increase its strength in the four areas (wealth management, investment banking, S&T and wholesale), and reorganized its company-wide support and control structure into a management support department and eight headquarters for a more systematic operation of corporate structure.

In addition, the company has created several new departments to enhance its strategic strengths in core business areas.

- The Investment Products & Services (IPS) department was launched to raise product competitiveness and capacities in wealth management, focusing on research, product planning, investment solutions and portfolios.
- In investment banking (IB), organizations related to pre-existing debt capital markets (DCM), equity capital markets (ECM) and structured finance (SF) have been expanded and reorganized, and a new SME Headquarters is set to offer effective IB services to small and medium-sized enterprises.

In order to enhance risk management in derivatives, a fast-evolving sector of the economy, KB Securities

- Established the PCG Department (derivative analysis, profit and loss examination) and QMR Department (examination of derivative models and pricing).

KB Securities also adopted a triple employment system in cooperation with KB Kookmin Bank and KB Financial Group in the areas of wealth management (WM) and investment banking (IB). This allows employees to take multiple positions in the three companies and to substantially increase opportunities for cooperation through increased synergy across the group.

Strategies and Achievements in Creation of Synergy

The newly-launched KB Securities is expected to further expand its client base and trading partner network, thanks to the parent company and its solid financial fundamentals. KB Kookmin Bank's strength in retail finance has combined with the solid retail business capacities at KB Securities to maximize the financial synergy between the two companies. For instance, more than 100,000 new accounts were opened only six weeks after KB Securities introduced the Able Star Bank Connected Account (July 1st 2016). By the end of 2016, this number had increased to 180,000 with assets held in the accounts amounting to KRW 230 billion.

As a member of the KB Financial Group, KB Securities has designated joint business with other KB subsidiaries as one of its key projects, and will further engage in cooperation on multiple contact points, including customers, products and sales.

Maintaining a No. 1 Position in DCM, Corporate Bonds and ABS Markets for 6 Consecutive Years

KB Securities continued to maintain its impact on the DCM market through corporate acquisitions and relationship management (RM) with issuing companies. As a result, the company remains at the top of the 2016 Bloomberg League Tables in DCM with a market share of 19.7% despite increased competitive pressure from other top-ranked companies. It has enjoyed this position for six consecutive years.

The company also recorded the highest performance in the industry in terms of asset liquidation, topping the Bloomberg ABS League Tables through successful liquidation of phone-backed bonds, auto loans (car leasing), air fare receivables, primary collateralized bond obligations (P-CBO) of the Korea Credit Guarantee Fund and Korea Technology Finance Corporation, non-performing loans, corporate bonds and a variety of other underlying assets.

Facilitating Start-up Investment

In line with its efforts to assist start-ups in accordance with the Crowdfunding Act (effective January 25th, 2016), KB Securities

participated in establishment of the KB Financial Group's Fintech Hub Center while planning and carrying out the Fintech Accelerator Program that started by the former KB Investment & Securities. In addition, the company provided a KRW 100 million crowdfunding platform of matching investment for four companies in the first half of 2016, an industry first, followed by one more company in the latter half of the year.

2017 Plans

KB Securities seeks to further increase its competitiveness in accordance with its vision of being "A global financial investment company leading the industry in Asia" with a focus on growth strategies in four key business areas through systematic post-merger integration.

- In wealth management (WM), the company has put forward a systematic plan to promote wealth management, placing itself as the people's partner in asset enhancement towards reinventing itself as the nation's most trusted asset management house. It has increased the number of staff with expertise in private banking, set up an Investment Product Service Headquarters and established a support system for wealth management. The company has also established a joint multi-service branch strategy with KB Kookmin Bank to increase the synergy between the two corporations.
- In investment banking (IB), KB Securities plans to focus on direct investment through service models that provide the most effective solutions for each corporate client. A true partner in growth over the long-term, KB Securities provides a comprehensive package of IB consulting services personalized to the growth stage and financial situation of individual corporate customers. To this end, the company will establish an IB Solutions Headquarters and SME Finance Headquarters to promote identification of and comprehensive support for small and medium-sized venture companies with high growth potential, while offering the professional IB services that can be expected from a company with extensive expertise in DCM and ECM. At the same time, the company looks for new business opportunities in real estate, infrastructure and alternative investment in real assets and other areas, while increasing its equity capital to strengthen direct investment in its IB business.

What Hyundai Securities brought to KB

The highly-developed infrastructure at Hyundai Securities combined with the advanced capacities at KB Investment & Securities: together bringing an exceptional level of competitive strength to the industry with 3.85 million customers and KRW 100 trillion in customer equity.

**100
TRILLION
3.85
MILLION**



NEW

Synergy

More than 100,000 new Able Star Bank Connected Accounts have been opened.

Total assets deposited in 180,000 accounts amounting to KRW 230 billion.

**230
BILLION**

NO.1

Largest market share in DCM for six consecutive years

KB Securities remains No.1 in the Bloomberg League Tables in DCM with a market share of 19.7%.

19.7%

2016 Performance

General Insurance

Sales of KB Insurance rose 0.3% over the previous year to KRW 882.7 billion in 2016. This was due to a 1.7% growth in its domestic business from 2015 to KRW 827.7 billion, offsetting the 16.7% decrease in its foreign business at KRW 55 billion which was attributed to the company's efforts to improve its product structure and reduce the loss rate.

As a result, the loss rate improved by 34.2%p to 73.7% in FY16 due to strategies that increased subscriptions for general insurance products and enhanced profitability, and to the continued efforts to improve the product structure and reduce the loss rate from 2014 onwards.

Long-term Insurance

Despite dramatic improvement in loading profits in 2016, the reduction in interest surplus and risk margin owing to the unfavorable investment environment and the increased loss ratio led to a decrease of 9.0% in profits under the previous year to KRW 413.1 billion. The loss ratio was 87.6%, up 5.3%p over 2015, due to the change in the IBNR accumulation standards for improving management of financial stability and losses carried forward from the 2015 outbreak of MERS in the country.

Auto Insurance

The loss ratio improved over the previous year by -6.4%p to 81.9% (FY15 88.3%), while the gap in the ratio between KB Insurance and its main competitor was +0.2%p. The net loss ratio excluding loss adjustment expenses was 75.0%, with a ratio gap of 0.0%p with the foremost competitor.

Asset Management

Amid global low growth trends and decreasing interest rates, the company's investment profits reached KRW 703 billion in 2016, while the profit rate of assets in management was set at 3.25%: a drop of -0.30%p from the previous year. The company's assets in management were valued at KRW 23.2543 trillion in 2016, representing an increase of 12.1% (KRW 2.5163 trillion) over 2015.

In 2016, KB Insurance successfully increased asset duration by selling off long-term bonds under asset liability management (ALM), and cut asset requirement pressure by reducing the amount of risk assets. As a result, the proportion of interest-earning assets in the company's portfolio rose by 1.6%p over 2015 to 91.2%, while risk assets made up 8.8% of the portfolio, representing a drop of 1.6%p under 2015 (1.0%p decrease in shares, 0.6%p decrease in real estate).

Reorganization

In December 2016, KB Insurance reorganized its corporate structure towards effective implementation of its three main mid- and long-term strategies — 1. Customer-focused management, 2. Risk/value-focused business management system, and 3. Cost structure innovation.

First, towards realization of customer-focused management, the company set up a Compensation Headquarters to manage the long-term/auto insurance-related departments and transferred its Customer Support Team from the Local Headquarters to the Customer Support Department, thereby improving service quality and customer satisfaction in its each moment of truth (MOT) with customers. A Marketing Planning Department was also set up to manage departments related to customer service for operation of its customer-product-channel (CPC) strategies and to improve its nationwide marketing capacities.

Second, towards realization of risk/value-focused business management, KB Insurance launched two new departments—the Asset Risk Management Department to manage risk limits across the company under the Risk Management Headquarters, and the Digital Strategy Department handling company-wide digitalization under the Business Strategy Headquarters—in response to the changing dynamics within the digital finance industry. In addition, the company incorporated the System Support Department and the Value-based Management Infrastructure Taskforce into the Business Management Department for more effective operation of its business management system upon the introduction of IFRS17 standards.

Third, towards realization of cost structure innovation, KB Insurance underwent structural changes as part of its reinvestment strategy to secure pillars of growth for the resources obtained through efficient business channels.

In personal marketing, the company reorganized its local headquarters and teams into an organizational structure of enhanced efficiency and business support features, and launched a Personal Marketing Innovation Department under the Personal Marketing Headquarters to promote change and innovation on traditional marketing channels. In strategic marketing, KB Insurance launched a Direct Insurance CM (Cyber Marketing) Department under the Direct Insurance Headquarters to enhance marketing capacities and further expand into the direct insurance market. In corporate marketing, the company established a Corporate Marketing Headquarters and a General Product Department, and reorganized the Corporate Marketing

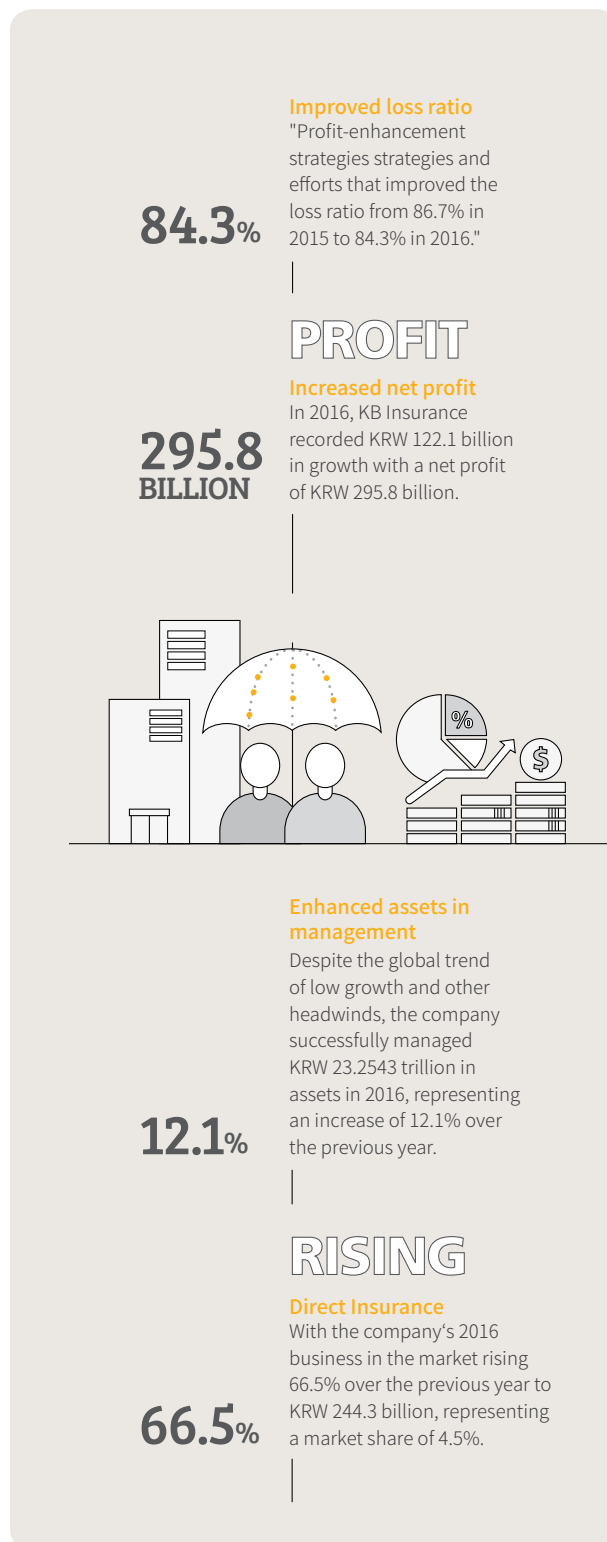
Department and headquarters to promote corporate marketing and product development while enhancing organizational efficiency at the same time. KB Insurance also launched an SME Marketing Department under the Corporate Marketing Headquarters to help new SMEs raise their market profiles.

Direct Insurance

The direct auto insurance market in Korea was valued at KRW 5.3877 trillion in 2016, with sales increasing by 15.7% over 2015 and the share of the total auto insurance market by 2.9%. Direct auto insurance products can be purchased through telemarketing channels (TM) and cyber marketing (CM) channels on PC or mobile. In 2016, the CM channel market grew rapidly to KRW 2 trillion in value with introduction of the “1 company 3 prices” system and an online insurance supermarket (Damoah). KB Insurance has been involved in the direct auto insurance market since April 2013, with the company’s 2016 business in the market rising 66.5% over the previous year to KRW 244.3 billion, representing a market share of 4.5%. Through its focus on the CM business model, KB Insurance has successfully gained the No. 2 place in the CM channel industry with assets valued at KRW 135.7 billion and a market share of 7.1% after having been in the market for only one year (since January 2016).

Risk Management

"The company's risk-based capital(RBC) ratio was 168.7%(consolidated basis) as the end of 2016, while previous year's one was 170.2%(separate basis). An increased level of confidence in measuring credit risk(95%→99%) was a burden for KB Insurance Capital management. However, KB Insurance successfully raised its financial stability by increasing paid-in capital to KRW 170.6 billion from major shareholders in the face of an increased possibility of further decreases in the RBC ratio due to enhanced interest rate volatility after the US Presidential election. The company’s Risk Management Committee, in cooperation with other RM organizations, also managed risk on a company-wide scale to meet the challenges brought on by low growth, low interest rates, stronger financial stability standards and other domestic and foreign factors.



2016 Performance

In 2016, KB Kookmin Card launched KB Kookmin Alpha One Card, the industry's first single-card platform, in response to the expansion of financial services incorporating IT technologies (Fintech). KB also made improvements on services it offers on Kmotion, a mobile-based card application service, and introduced Golden Life Ollim Card, KB Kookmin Ga-on Biz Card and other leading products that reflect market demands. KB Kookmin Card has released Liiv Mate, a KB platform for the general membership, as part of its efforts to become a "Life Designer for a better Life", which is the Card's slogan.

The company's 2016 consolidated net income stood at KRW 317.1 billion, dropping 10.7% under the previous year. However, consumption on KB cards increased 12.3% over 2015 to KRW 106.5 trillion, with the number of people making purchases on their KB credit card showing a 3% year-on-year increase at 6.77 million, laying a solid foundation for future growth. Based on these achievements, KB Kookmin Card is poised to maintain its leadership position in the market into 2017.

Fitting Your Lifestyle— Golden Life Ollim Card and Titanium Card

This year, KB Kookmin Card launched two different credit cards both offering highly customized services to senior customers, designed after big data analysis—Golden Life Ollim Card and Golden Life Titanium Card. Developed together with Golden Life Pension Love Package, these two cards provide senior customers with benefits (under the Pointree mileage system) in golf and other areas and discounts on purchases made at hospitals, pharmacies, gas stations and supermarkets. Other Fintech-related financial services offered to KB card users include Smart OTP and Good Touch Service.

ISMS Certification

In late October 2016, KB Kookmin Card successfully acquired certification for its ISMS (information security management system) from the Korea Financial Security Institute. An ISMS is a set of comprehensive policies and standards that evaluate the measures taken and process for protection of a company's information assets, and the way those processes and measures are operated and managed. The Korea Financial Security Institute conducts an overall evaluation of a corporation's management and information protection solutions in accordance with the Act on Promotion of Information and Communication Network Utilization and Information Protection with a mandate from the Ministry of Science, ICT and Future Planning. To receive the certification,

a review was made of KB Kookmin Card's company-wide IT operations (including customer and other business systems) and its security policies, human resources, equipment, facilities and other areas. This is especially meaningful as KB Kookmin Card's efforts and achievements in safe and reliable management and protection of customer IT services and the general IT system were recognized by the nation's official certification authority.

A Brand New Concept— KB Kookmin Alpha One Card

Another worthy achievement at KB Kookmin Card this year was the introduction of KB Kookmin Alpha One Card that allows holders, for the first time in the industry, access to the advantages of multiple cards with a single credit card.

The name of this innovative product is a combination of the ideas behind two words: "alpha", meaning the best and the first launch of a Fintech-intensive card, and "one", referring to a single card offering a range of services. With the launch of Alpha One Card, holders do not need multiple cards to enjoy the variety of benefits each individual card provides. Alpha One Card offers it all through Fintech, by mapping both the mobile card application and the actual card in real time and allowing quick changes between cards for holders to enjoy the full range of benefits.

In addition, Alpha One Card offers a Good Touch service which utilizes NFC (near-field communication) technologies.

Select Your Preferred Exchange Rate

For international payments made on credit cards, KB Kookmin Card has introduced the industry's first user-selected exchange rate service, thereby minimizing losses from exchange rate fluctuations. This service allows holders to choose between two different rates—the exchange rate calculated on the day of purchase and the rate on the day invoices are submitted. Customers are advised to choose the former when the exchange rate is expected to rise, and the latter when the rate is expected to fall by the time the invoice is submitted to the company by the supplier.

Mobile Application Card with MST

This application card touch payment service incorporates MST (magnetic secure transmission) technologies used in Samsung Pay into mobile card applications. This first-of-its-kind combination has been possible through a strategic partnership between KB Kookmin Card and Samsung Electronics. When a KB customer makes a purchase using the KB Kookmin Card application on their mobile phones at brick and mortar stores, the payment information is transmitted through MST technologies. With the

launch of this service, users can now pay with their KB Kookmin Card mobile app at any physical store that accepts Samsung Pay. Plans are in motion for KB Kookmin Card to further increase user convenience with the introduction of NFC technologies and other payment methods in the future.

Data Analysis of KB Kookmin Ga-on Biz Card

KB Kookmin Ga-on Biz Card offers highly customized services and benefits to self-employed store owners based on big data analysis of their consumption patterns. Users can earn extra mileage points on large purchases or those made on preferred products and areas. In addition, KB's self-employed customers can enjoy My Biz Service, in which they can receive guidance on issuance of electronic tax invoices, tax returns and other support, regardless of the amount charged to their credit card in the previous month.

Private Blockchains and a Blockchain-based Identification Service

In December 2016, KB Kookmin Card set up the nation's first private blockchain system in cooperation with a Fintech company named CoinPlus and released a new personal identification system based on blockchain technologies. Here, a blockchain is a distributed database that allows the participation of only authorized corporate members within a system that operates on bitcoins. Simple Identification is a service based on the blockchain system and involves the use of passwords and a blockchain authentication network. While there is increased interest in alternative authentication technologies after the financial authorities announced that the use of online digital certificates was no longer mandatory, blockchains and identification services based thereupon are especially welcome due to their convenience and secure designs.

KB Kookmin Card now offers log-in and simple identification services using blockchain technologies on its mobile card application Kmotion, Liiv Mate, and KB Kookmin Card mobile app. It plans to further improve the security and convenience of its services through an expansion of its authentication system and development of new blockchain-based services.

2017 Plans

In recent months, credit card companies have had to cope with a continuous downturn in the economy, strengthened regulations from the authorities, and increased competition along with a maturing credit card market, new competitors and many other issues. Despite these headwinds, KB Kookmin Card is determined

to push ahead with the following three management strategies to continue leading the payments market in 2017.

First, we will greatly improve productivity in all service areas. We plan to raise productivity in search of new members, focus on marketing in high growth areas and on long-term business relations, offer customized recommendations to each customer, and increase overall productivity in sales.

Second, we will lay a stronger foundation for future corporate growth. We plan to upgrade and diversify our financial services, expand to new business areas and overseas markets in search of new opportunities and engines for growth.

Third, we will work towards digitalization on a company scale towards greater competitiveness in the mid- to long-term. We plan to further improve efficiency in all business areas through innovation in process and digital automation in sales, marketing, business management and other services.

Innovation in the industry —Alpha One Card

KB Kookmin Alpha One Card, launched by KB Kookmin Card, grants its holders single-card access to the advantages offered by multiple cards.



1st

Private blockchains

The nation's first private blockchain system was introduced to enhance security and convenience.

2016 Performance

In 2016, KB Life Insurance focused on value-intensive growth for sustainable management and carried out the following tasks:

Promotion of Value-intensive Growth

KB Life Insurance increased earnings from protection insurance products to achieve long-term profit growth and adapt to changes in interest rates, promoted the value of new business, and increased the competitiveness of its products by expanding the range of protection insurance products. At the same time, the company further promoted value-focused growth by improving the retention rate of insurance policies and life consultants.

Improvement in Sales Support System

Through on-site meetings with and briefings from employees and consultants at sales locations, KB Life Insurance was able to make improvements to its one-stop support system, placing the focus on on-site sales activities. As a result, the company saw consumer complaints fall by 19% compared to the previous year, while the incomplete sales rate decreased by 0.5%p to 8.97%. By operating Financial Service Multi-branch Offices and setting up differentiated outbound sales channels, KB Life Insurance also provides one-stop financial services to customers.

Response to Changes in Regulations

KB Life Insurance set up a task force team to take a pre-emptive stance and set up measures in response to IFRS17 (International Financial Reporting Standards to be introduced in 2017), established strategies for all business areas including products, channels, risk management and asset management, and is currently monitoring sub-areas for future strategies. In addition, it is also making preparations for the introduction of IFRS9 in 2018 and setting up related systems. For the upcoming introduction of the new RBC (risk-based capital) system, KB Life Insurance is in the process of analyzing the possible effects and preparing response measures to minimize influence on its business.

Promotion of Change and Innovation

To achieve success and maintain its competitiveness in an age of infinite competition, KB Life Insurance discovers and promotes new changes and innovation. It also bolsters its system of checks and balances, improves business processes and raises efficiency. In addition, the company successfully ensures fairness and objectivity in personnel management through the establishment of a meritocratic system, and reinforces internal messages through various corporate culture building activities.

KB Group Marketing

KB Life Insurance launched sales promotions in coordination with the group's introduction of an integrated reward system, where customers who either applied or subscribed to online insurance products received additional mileage points which they could then use to pay premiums. The company also contributed to the improvement of KB Star Club, a premium customer service that offers benefits based on the level of customer participation, utilizing its vast subscriber database and engaging in various activities aimed at stimulating synergy across the group.

As a result of these efforts, the company saw its CMIP (converted monthly initial premium) for protection insurance products increase by 110.65% from the previous year to KRW 11.5 billion, net profit by 20% to KRW 12.7 billion, and RBC rate by 199.14%. Based on these sound achievements, the total assets of the company in 2016 stood at KRW 8.8874 trillion, recording a 4.4% increase from the previous fiscal year, paving the way for continuous growth in the future.

2017 Plans

To promote value-focused growth through innovation in products and channels, KB Life Insurance plans to implement the following strategies:

First, we will continue to provide our customers with the best products and services that meet their needs and add additional value, expand our customer-oriented business processes and infrastructure, and make our very best efforts to maintain a high level of consumer trust.

Second, while we reinforce the efficiency of sales channels and one-stop support at sales locations to improve our channels and organization, we will also promote synergy within KB Financial Group and lay the groundwork for digital-based growth and development in the future.

Third, in preparation for the introduction of a new accounting system, we will improve our capacity to manage profits/losses and capital volatilities, and establish a risk management system that focuses on actual risks to enhance the soundness of the system.

Finally, we will continue our efforts to build a strong and resilient corporate culture where we overcome difficulties through innovation, teamwork and a sense of ownership.

2016 Performance

In 2016, KB Asset Management focused on solidifying its basis for passive asset investment, subsequently achieving notable results.

With its priority placed on the 2016 management goal of enhancing KB's market power in exchange-traded funds (ETFs), the company introduced two healthcare ETFs, two smart beta ETFs, three active bond ETFs and a variety of other new products onto the market. The number of products launched in 2016 was equal to the number of listed products for the 8 years from 2008, when it first entered the domestic ETF market, to 2015. As a result, KB Asset Management was able to increase its market share by 1.1% over the previous year to 8.2%, and realized KRW 2.1 trillion in profit.

In essence, KB Asset Management:

- Established AM strategies and set up solution businesses suitable for a low growth, low interest rate economy with an increasing number of senior citizens;
- Launched the KB Global Solution Fund, which allows customers to use ETFs to diversify their investment portfolios across global stock markets, and achieved an annual profit margin of 6.55%;
- Conducted an automated big data analysis of customer trading records, and provided investors with personalized investment solutions for the global markets; and,
- Developed KB Robo-rider, incorporating a robo-advisor and an ETF.

In addition, the company successfully maintained its leading position in the retirement pension fund industry:

- With its outstanding performance in the domestic stock fund market over the last decade, KB Asset Management has maintained its strong No. 1 position, leading domestic retirement pension fund management firms with KRW 1.9 trillion in management as of the end of 2016.
- The profit margin for active growth stock funds exceeded 9%, domestic stock funds had an average profit of 0.65%, domestic active stock funds saw -3.77%, KB Korea Representative Group Securities Master Investment Trust saw 9.68% with KRW 252.3 billion in management, and KB Gross Focus Fund recorded 11.32% with KRW 67.6 billion in management.

There was a substantial increase in the value of assets in management as well:

- The company successfully raised the value of managed assets by 11% to KRW 52.7 trillion.

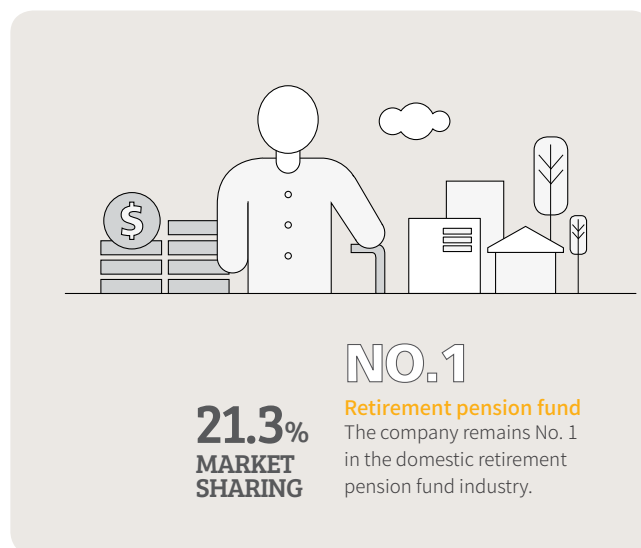
- In 2016, KB Asset Management posted record profits for 3 consecutive quarters, with KRW 14 billion in Q1, KRW 15.7 billion in Q2, KRW 17.5 billion in Q3.

KB Asset Management also promoted investment in infrastructure funds, real estate funds and other alternative investment options, and forged partner relations with multiple management firms in Australia, the US, Canada and other countries, utilizing the global network of KB Financial Group, the largest financial group in Korea. On top of these efforts, the company has for many years continued to actively invest in renewable energy in domestic and foreign markets.

2017 Plans

To raise the long-term profitability of its AM business, KB Asset Management has established the following goals for the coming year:

- Improve the competitive strength of its stock fund investment business
- Enhance its market position in high-risk, high-yield markets
- Lay solid groundwork for long-term profit creation
- Promote overseas investment
- Engage in solution businesses and enter the OCIO markets
- Improve its personnel management system and cost structure



2016 Performance

In 2016, KB Capital's total assets surpassed KRW 7 trillion, exceeding its original target by 118%. The financing operations of newly established businesses amounted to KRW 6.9474 trillion, marking another higher-than targeted level (by 160%). With these achievements, the company successfully posted record-high operating profits of KRW 265.1 billion and the highest net income in its history (KRW 96.7 billion). KB Capital's total assets ranked No. 2 in the industry, marking an advance of three ranks over the previous year.

Price information for second-hand vehicles on KB Cha-cha-cha

In line with its efforts to strengthen the foundation for its online operations and to offer one-stop financial services, on June 1st, KB Capital launched a price information sharing website, known as KB Cha-cha-cha, for second-hand cars, receiving rave reviews from users. The aggregate number of mobile application users surpassed 500,000 in just six months, and the company's data on used car prices was selected by the Ministry of Land, Infrastructure, and Transport as one of the main references for the government's policies on the development of the used car industry.

Automotive financing as a prime asset

Despite the automotive financing industry being an easy target for card and capital companies and banks due to its low entry barriers, KB Capital was able to increase its performance by 45.2% over the previous year through captive financing and cooperation with auto manufacturers. Of special note is that the company remains on top in terms of market share in the imported vehicle financing market.

Joint capital company and exclusive JLR-financing company

KB Capital successfully launched SY Auto Capital in cooperation with SsangYong Motor in January 2016. The move was the first of its kind for a domestic financial institution. Despite the aggressive marketing strategies of card companies with low commissions, SsangYong auto financing by KB Capital increased 159% over 2015. In addition, KB Capital promoted captive financing for JLR vehicles following its designation as the exclusive financing company for Jaguar Land Rover Korea. Consequently, auto financing for JLR cars increased 67% over the previous year to KRW 583.8 billion (penetration rate at 61.7%) despite the Volkswagen scandal and the resulting slow-down in the overall imported vehicle market.

2017 Plans

A next-generation IT system

KB Capital began developing a next-generation IT system in the first quarter of 2017, planning to introduce a key IT system

that meets the challenges of a constantly-changing financial market and the upcoming 4th Industrial Revolution, and provide a solid basis for future business. The project involves data standardization, product management system design, establishment of smart business systems and improvement of IT infrastructure. The company is currently in the process of setting up a master plan for the project, aiming for completion by 2018.

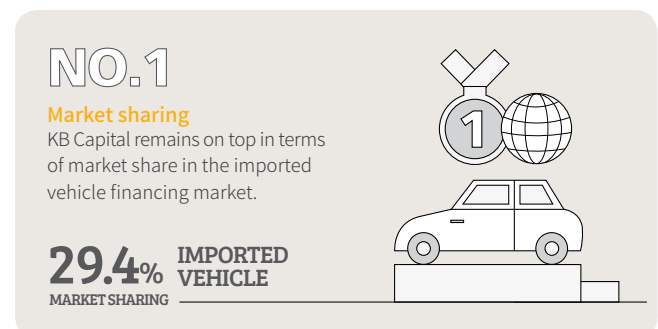
Digital Business Headquarters and a focus on online platforms

KB Capital's Product Planning Headquarters has recently been reorganized into the Digital Business Headquarters with a greater focus on online and mobile services. The Personal Finance Department handles online credit loan services and business related to newly-emerging Internet banks, while the Customer Relationship Management Department concentrates on marketing strategies based on consumer needs and their trading patterns. Lastly, the Digital Business Department is responsible for developing technologies for its own online automotive platform, and handling the online sales platform.

Captive financing and business areas for future growth

KB Capital will put its next-generation system into place and promote cooperation in the electric automobile and car sharing markets, towards securing growth engines for the future. Following growth in the sharing economy, KB Capital is in the process of acquiring stock in a car-sharing company, and examining plans to further expand its business operations overseas on top of the upcoming establishment of its local corporation in Laos.

In addition, the company is aiming to create for itself a competitive advantage in the used car financing service market by increasing the number of KB Cha-cha-cha trade complexes throughout the country. Toward this end, KB Capital will offer financial support to newly-established complexes and provide captive financing there, and launch a certified used car sales service to strengthen its sales activities in the highly-profitable second-hand vehicle industry.



2016 Performance

KB Savings Bank handles consumer loans in the KB Financial Group. It practices “kind financing” in line with its slogan of “Kind financing partner for people”, placing social responsibility over temporary profits, seeking to do business for the benefit of the consumer.

Despite the current difficulties faced by the entire industry, KB Savings Bank was able to raise deposit interest rates while at the same time reducing interest rates on personal consumer loans, and increasing the number of non face-to-face channels for residents in remote areas and workers with little extra time.

As part of the bank’s goal to provide products most beneficial to consumers, Sunshine Loans are offered in cooperation with Korea Inclusive Finance Agency, and Saitdol 2 in cooperation with Seoul Guarantee Insurance, along with mid-range interest rate KB Kind Loans.

KB Savings Bank not only helps increase consumer wealth, but also brings back into the institutional framework consumers with poor credit who are refused service at commercial banks. Users will find its financial services and products as convenient to use as those at direct banks.

From the time an application is submitted to the time the contract is signed, the bank’s loan services are accessible to consumers in one setting through its mobile “KB Kind Banking” application.

Improvement of non face-to-face channels

This year, the bank established an Online Channel Headquarters in an effort to raise its ability to increase sales on non face-to-face channels. It also increased its sales workforce to further enhance its competitive strengths and organizational efficiency towards taking preemptive action against challenges that will arise from the advent of direct banks and rising competition in the mid-range interest rate loan business.

In March, KB Savings Bank became the first financial institution in the nation to launch a blockchain-based personal identification system, through which consumers are now able to access financial services without resorting to the controversial public key certificate system. In July, the bank further improved consumer convenience with the launch of “KB Kind Banking”, a smart financial service provided on its mobile platform.

Consumers can now select deposit products or apply for KB Kind Loans with interest rates around 10% without visiting a local

branch or submitting paper documents. In addition, the non face-to-face account opening service introduced along with KB Kind Banking is protected by a high level of security and can only be accessed on mobile phones registered under the applicant’s name. This significantly reduces the risk of stolen deposits, cloned accounts and other fraudulent issues that can arise with the public key certificate system. The bank also provides ARS phishing protection services which further guard consumer information during the process of personal identification.

In October, KB Savings Bank launched “KB Kind Mobile Account All-V”, a service providing easy access to the savings account for deposits or withdrawals. Consumers can apply without the need to visit a local branch, to apply for a salary transfer service or be subjected to any other preconditions, and take out loans with annual interest rates as low as 1.3% for up to KRW 50 million. Other benefits include free Internet transactions.

Synergy through cooperation with KB Kookmin Bank

Mortgage and consumer loan products of KB Savings Bank (KB Kind Loan, Sunshine Loan, Saitdol 2) can also be applied for at KB Kookmin Bank as well. The synergy created between KB Savings Bank and KB Kookmin Bank brought about a 73% increase in total loan business for the two entities.

2017 Plans

Key plans for KB Savings Bank in 2017 include the following:

- Lay the groundwork for long-term growth by strengthening competitiveness in non face-to-face channels
 - Enhance accessibility to mobile-based channels and develop new products to improve its lineup
- Increase asset profitability by reviewing the cost of credit, and promote acquisition costs at low interest rates
- Promote preemptive risk management
 - Improve the individual credit assessment model that is optimized for loans with mid-range interest rates
 - Improve risk evaluation and management of corporate loans
- Establish strategies towards creation of a business model that keeps up with the future
- Increase organizational efficiency through adjustment of sales channels and other activities, and improve cost structure and productivity

2016 Performance

As a way to effectively respond to the changing market conditions and further promote sales, KB Real Estate Trust has taken steps to improve its systems and regulations and enhanced productivity through such activities as introducing the salary peak system and management of low performers. As a result, the company's profits from commission revenue increased by 38.9% to KRW 59.3 billion in 2016.

Maintaining a leading position in REITs market in Korea

The company's Real Estate Investment Trusts Department took pre-emptive action against rapidly changing market conditions and regulations by bringing seasoned professionals on board and enhancing its marketing capacities. As a result, KB Real Estate Trust successfully established three NewStay REITs whose assets have been acquired through public biddings (2nd ~ 4th) for LH private rental operators and launched Dream Town rental apartments in Ansan through REITs, positioning itself in the market as an all-time leading asset management company specializing in rental housing REITs. The company is also working to diversify its REITs portfolio through successful launch of logistics center REITs in Gimpo, Yeoksam building in Seoul and other commercial real estate property.

A new Reconstruction Department

Due to its interest in actively investing in the reconstruction business, KB Real Estate Trust established a Reconstruction Department, recruited experts across the industry, signed MOUs with construction companies and other partner firms, and is otherwise laying a solid foundation for tapping into the industry. Due to these efforts, the company was selected as a priority negotiating partner for the trust-based reconstruction project of Gongjak Apartments on Yeouido in January 2017, and has gained other visible results and successes throughout the process.

To further strengthen its position in the trust market, the company exploited its credit rating, KB's prestigious brand name and other resources to realize KRW 16.2 billion in contract commissions through a high-yield management-type land trust. In the high-risk loan-type land trust industry, the company selected and has successfully sold out the Kolon Haneulchae Apartment complex in Cheonan, along with two other prospective housing projects, while thoroughly monitoring the achievement of the target subscription and project rates. In addition, the company is engaged in trust-based development of idle real estate properties belonging to KB subsidiaries as a way of increasing their assets and group-wide synergy.

2017 Plans

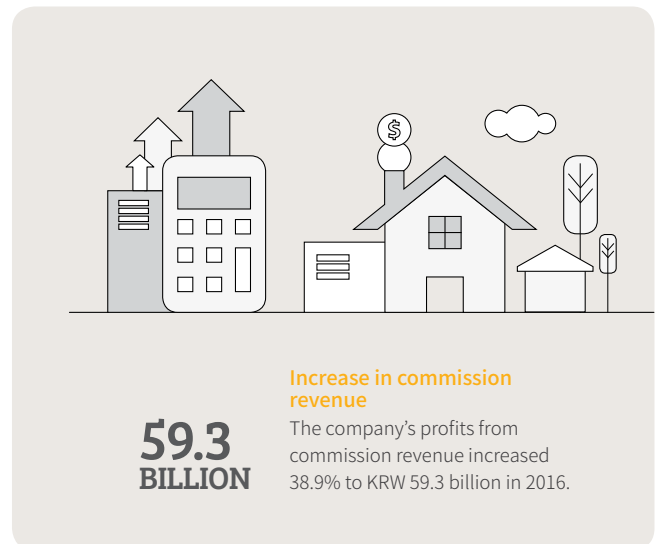
In 2017, KB Real Estate Trust aims to conduct sound management of its assets and increase corporate value with the following plans: First, we will further enhance our market presence.

- In the loan-type land trust market, we will increase our capacities and take orders of sound, low-risk projects;
- In the management-type land trust market, we will improve our business structure and increase sales; and,
- We will enhance our synergy with other KB subsidiaries through a trust-type development of idle real estate properties and other similar measures.

Second, we aim to take the lead in the New Stay rental housing REITs market through the launch of New Stay housing units in accordance with the related government policies, and enhance the number of REIT projects by securing logistics and retail facilities and other real estate properties for investment.

Third, we will selectively obtain orders for sound pilot reconstruction projects and extend into the urban redevelopment market.

Fourth, we will improve our personnel management system so it is more based on performance and serves to enhance employee productivity.



2016 Performance

The 2016 venture investment industry witnessed two remarkable achievements —the value of newly established venture funds broke the KRW 3 trillion mark, and the value of venture investments surpassed KRW 2 trillion for two consecutive years, thanks to the large-scale participation of private capital.

The biotechnology/medical industry showed the highest investment rate of 21.4%, and investment in the ICT service industry recorded yet another increase to 18.8%, continuing to exhibit strength after substantial growth in the previous year.

With a net increase of 5 companies in the start-up investment industry, financial companies that carry out investment in new technologies along with traditional securities firms looking for full-scale entry into the market, competition to establish new investment funds and the search for new investment deals intensified.

In the private equity industry, however, the growth capital market, which is a point of major investment for KB Investment, remained sluggish for a second year due to increased market volatility, low interest rates and delays in industry restructuring.

In consideration of these changes, KB Investment implemented strategies that focused on venture capital investment and the establishment of new venture funds.

To increase investment in biotechnology, ICT services and other new growth industries, KB Investment established the KB High-tech Company Investment Fund (with capital of KRW 50 billion) and the KB-Solidus Global Healthcare Fund (with capital of KRW 150 billion), attracted investment, and carried out a major reform of incentive structures to promote investment.

Thanks to these efforts, KB Investment successfully attracted KRW 84.7 billion in venture capital investment in 2016, a record high that outpaces results over the past decade, and recorded surpluses for the 6th consecutive year.

In 2016, KB Investment set up a global healthcare fund worth KRW 150 billion, the company's largest single venture investment fund since its foundation. Investment strategies are expected to become more diversified in conjunction with this development in the future.

In addition, some of the group's subsidiaries (KB Kookmin Bank, KB Insurance, and KB Life Insurance) joined in and established the

KB High-tech Company Investment Fund, a KRW 50 billion-fund for small to medium-size venture companies whose advanced technologies met TECH standards, and made significant social contributions while enhancing the reputation of the KB Financial Group at the same time.

In 2016, KB Investment received the following awards while significantly enhancing its corporate profile and the image of venture capital investment:


- Senior Managing Director, Seung Jun Yeom, was awarded the Best Investment Support/Administrator's Prize at the Korea Venture Capital Awards (February 2016)
- Managing Director, Jeong Seop Shin, was awarded the Minister's Prize at Bio Korea 2016 (March 2016)
- Managing Director, Yeong Seok Song, was awarded the Minister's Prize at the Venture Start-up Awards (December 2016)

2017 Plans

In 2017, KB Investment plans to greatly enhance its competencies by improving its performance review and reward systems, as well as improve investment processes and support structures. It will also enhance its market power by recruiting external talent and setting up new investment funds.

In addition, the company will make a heavy investment in the Fintech business through KB Innovation HUB, and actively develop new venture investment products in cooperation with KB Securities, which joined the group last year.

KB Investment sees the year of 2017 as an opportunity for a fresh new start and is determined to deliver on its promises through the establishment and successful implementation of innovative mid and long-term development strategies.



New venture funds and investments

The industry witnessed two record highs—KRW 3 trillion in new venture funds and KRW 2 trillion in venture investments.

3 TRILLION
2 CONSECUTIVE YEARS

2016 Performance

In 2016, KB Credit Information further enhanced its position within the KB Financial Group. The company successfully recovered KRW 349.3 billion for the group's subsidiaries in 2016, exhibiting a 147% increase from KRW 238.3 billion recorded in the previous year, with the recovery rate jumping by 142% from 1.160% in 2015 to 1.640% in 2016. With these results, KB Credit Information contributed significantly to the creation of synergy between KB subsidiaries.

These achievements were made possible because of its two solid goals of growth promotion and profit enhancement, and subsequent follow-up efforts.

- The company promoted growth by increasing the volume and scope of recovery efforts, and;
- significantly improved its debt collection system, enhanced business support and bolstered profitability.

Earnings from debt collection in 2016 totaled KRW 29.1 billion, which comprised approximately 78% of total revenues. The total amount of retrieved debt amounted to KRW 404 billion, an increase of 2.3% from the previous year. Despite falling delinquency rates, stronger regulations and other difficult issues, KB Credit Information successfully achieved the above results by securing efficiency and competitiveness through enhanced promotion activities, a management system in which individual teams were designated for each recovery case, and other measures that encouraged internal competition in a sound and efficient manner.

Lease Investigation

Earnings incurred from the lease investigation business stood at KRW 8.2 billion and made up 22% of total revenues. Although there was a slight decline in the numbers due to the introduction of the government's comprehensive measures on household loans and other negative factors, lease investigation remained a major business of the company, responsible for over 20% of total revenues generated, as was the case in the previous year. In addition, income derived from outside the group rose by 124 million to 313 million in 2016, up from 189 million in the previous year, thanks to continued efforts to raise competitiveness both inside and outside the parameters of the group.

2017 Plans

Debt Collection

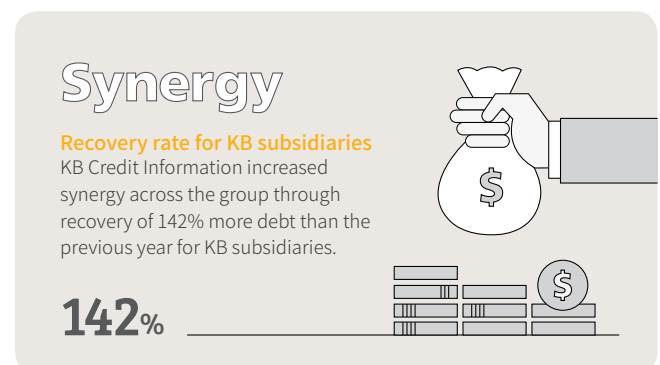
In 2017, conditions for the debt collection business are expected to worsen due to falling delinquency rates for household loans, strengthened regulation by financial authorities and other adverse factors. Despite these difficulties, however, KB Credit Information is determined to further raise its competitiveness by focusing on loan and credit card debt businesses to maximize profits and enhance efficiency.

The company also plans to improve its cost structure and work efficiency through a commission system reform, promote IT systems and infrastructure, enhance convenience and flexibility of business operations, and raise the level of protection of trade information.

KB Credit Information will strive to expand the scope of management of overdue debts and create synergy across the group. It will also continue to seek and accept business offers from outside the group including the recovery of civil and commercial debts through third party and joint operations, thereby securing new engines for future growth.

Lease Investigation

It is expected that growth rates for mortgage loans will see a decline this year due to the effects of the government's policies that aim to curb the growth of household debts. Despite the negative factors in the economy, KB Credit Information is determined to further raise its competitiveness, the quality of investigation reports and other services via mobile-based IT systems. The company also plans to focus on increasing earnings and expanding external business activities, and to maximize productivity by diversifying product portfolios, improving business processes, and expanding its pool of agencies to stand well ahead of its competitors in the market.



2016 Performance

In 2016, KB Data Systems made substantial improvements over performance during the previous year thanks to the revitalized financial markets, introduction of new subsidiaries into the group and the base effect of lower business activities in 2015.

- Amid growing competition with Fintech companies, as exemplified by the advent of direct banks, there has been an increased need for new mobile, data analysis and other technologies inside the group;
- Service outsourcing expanded to encompass a larger part of the group in providing group-wide joint IT services and improved IT efficiency; and,
- The increase in IT development and IT-applied service areas due to the incorporation of KB Securities, KB Insurance and other large-scale subsidiaries into the group became a main driving factor behind sales performance.

Along with the services for the subsidiaries, the company also proactively began establishing an IT infrastructure outside the group:

- IT system for Kolao Leasing (part of KB Capital's expansion into the Laotian market);
- IT support, risk management and a customer call center for web-based Kakao Bank.

At the same time, KB Data Systems took steps to outsource some of its IT service operations for KB subsidiaries, thereby increasing service expertise and setting the foundation for expanding IT business areas.

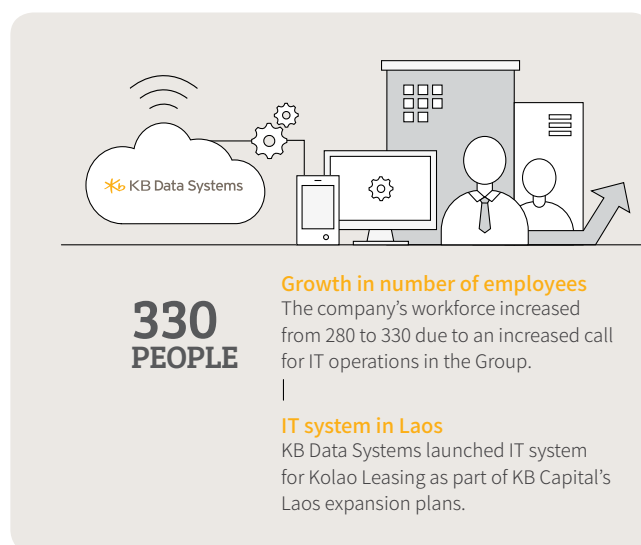
- The company reorganized its human resources structure away from a banking focus and towards an equal concentration on the card, insurance, securities and other non-banking sectors to improve its overall business capacities across the financial industry.
- KB Data Systems consistently improved its capabilities across the company through a CoP (Community of Practice) training system, and saw one of its employees receive the reputable Minister's Prize in the 2016 Korea Data Architecture Award.

2017 Plans

KB's needs for IT operations are expected to continue to increase in 2017, largely due to the planned establishment of a group-wide integrated IT center, active promotion of a next-generation system by the banking and card sectors and other major subsidiaries, and a continuous call for new technologies to improve the IT environment.

With these in mind, KB Data Systems continues to grow its workforce with talented people, following the changing dynamics in the technology sector closely, proactively responding to changes in the business environment, and constantly evolving as the go-to organization for professional IT services that match customer needs.

The group also plans to enhance cooperation with its departments and those of its subsidiaries in new business areas (such as the Future Finance Department), research and develop new technologies to launch innovative financial services, and serve as the IT subsidiary for the KB Financial Group as it takes a leading role in the Fintech industry.



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Independent Auditor's Report



To the Shareholders and Board of Directors of
KB Financial Group Inc.



Samil PricewaterhouseCoopers, 92, Hangang-daero,
Yongsan-gu, Seoul 140-702, Korea
(Yongsan P.O Box 266, 140-600), www.samil.com

We have audited the accompanying consolidated financial statements of KB Financial Group Inc. and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statements of financial position as of 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 of 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.

Samil PricewaterhouseCoopers

Seoul, Korea
March 14, 2017

This report is effective as of March 14, 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.

Consolidated Statements of Financial Position

December 31, 2016 and 2015

KB Financial Group Inc. and Subsidiaries

(in millions of Korean won)

	Notes	2016	2015
Assets			
Cash and due from financial institutions	4,6,7,8,39	₩ 17,884,863	₩ 16,316,066
Financial assets at fair value through profit or loss	4,6,8,12	27,858,364	11,174,064
Derivative financial assets	4,6,9	3,381,935	2,278,112
Loans	4,6,8,10,11	265,486,134	245,005,370
Financial investments	4,6,8,12	45,147,797	39,136,759
Investments in associates	13	1,770,673	1,737,840
Property and equipment	14	3,627,268	3,287,383
Investment property	14	755,011	211,815
Intangible assets	15	652,316	466,828
Current income tax assets	33	65,738	18,525
Deferred income tax assets	16,33	133,624	8,373
Assets held for sale	17	52,148	48,628
Other assets	4,6,18	8,857,785	9,375,704
Total assets		₩ 375,673,656	₩ 329,065,467
Liabilities			
Financial liabilities at fair value through profit or loss	4,6,19	12,122,836	2,974,604
Derivative financial liabilities	4,6,9	3,807,128	2,325,756
Deposits	4,6,20	239,729,695	224,268,185
Debts	4,6,21	26,251,486	16,240,743
Debentures	4,6,22	34,992,057	32,600,603
Provisions	23	537,717	607,860
Net defined benefit liabilities	24	96,299	73,197
Current income tax liabilities	33	441,812	30,920
Deferred income tax liabilities	16,33	103,482	179,243
Other liabilities	4,6,25	26,329,741	20,861,634
Total liabilities		344,412,253	300,162,745
Equity			
Share capital	26	2,090,558	1,931,758
Capital surplus	26	16,994,902	15,854,510
Accumulated other comprehensive income	26,35	405,329	430,244
Retained earnings	26	12,229,228	10,464,109
Treasury shares	26	(721,973)	-
Equity attributable to shareholders of the Parent Company		30,998,044	28,680,621
Non-controlling interests		263,359	222,101
Total equity		31,261,403	28,902,722
Total liabilities and equity		₩ 375,673,656	₩ 329,065,467

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2016 and 2015

KB Financial Group Inc. and Subsidiaries

(In millions of Korean won, except per share amounts)

	Notes	2016	2015
Interest income		₩ 10,021,882	₩ 10,375,823
Interest expense		(3,619,353)	(4,172,624)
Net interest income	5,27	6,402,529	6,203,199
Fee and commission income		3,150,877	2,971,095
Fee and commission expense		(1,565,985)	(1,436,112)
Net fee and commission income	5,28	1,584,892	1,534,983
Net gains (losses) on financial assets/liabilities at fair value through profit or loss	5,29	(8,768)	359,727
Net other operating expenses	5,30	(533,711)	(715,960)
General and administrative expenses	5,14,15,24,31	(5,228,711)	(4,523,584)
Operating profit before provision for credit losses	5	2,216,231	2,858,365
Provision for credit losses	5,11,18,23	(539,283)	(1,037,231)
Net operating income	5	1,676,948	1,821,134
Share of profit of associates	5,13	280,838	203,097
Net other non-operating income	5,32	670,869	140,464
Net non-operating income		951,707	343,561
Profit before income tax	5	2,628,655	2,164,695
Income tax expense	5,33	(438,475)	(437,389)
Profit for the period	5	2,190,180	1,727,306
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit liabilities	24	12,671	(22,906)
Share of other comprehensive income of associates		3,623	402
		16,294	(22,504)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		20,148	45,143
Valuation losses on financial investments		(47,871)	(28,969)
Share of other comprehensive loss of associates		(10,716)	(180)
Cash flow hedges		4,303	725
Losses on hedges of a net investment in a foreign operation		(7,095)	(25,477)
		(41,231)	(8,758)
Other comprehensive income for the period, net of tax		(24,937)	(31,262)
Total comprehensive income for the period		₩ 2,165,243	₩ 1,696,044
Profit attributable to:			
Shareholders of the Parent Company	5	₩ 2,143,744	₩ 1,698,318
Non-controlling interests	5	46,436	28,988
		₩ 2,190,180	₩ 1,727,306
Total comprehensive income for the period attributable to:			
Shareholders of the Parent Company		2,118,829	1,666,883
Non-controlling interests		46,414	29,161
		₩ 2,165,243	₩ 1,696,044
Earnings per share			
Basic earnings per share	36	₩ 5,588	₩ 4,396
Diluted earnings per share	36	5,559	4,376

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Equity

Years Ended December 31, 2016 and 2015

KB Financial Group Inc. and Subsidiaries

(In millions of Korean won)

	Equity attributable to shareholders of the Parent Company					Non-controlling Interests	Total Equity
	Share Capital	Capital Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Shares		
Balance at January 1, 2015	₩ 1,931,758	₩ 15,854,510	₩ 461,679	₩ 9,067,145	₩ -	₩ 9,067,145	₩ 27,512,672
Comprehensive income							
Profit for the period	-	-	-	1,698,318	-	28,988	1,727,306
Remeasurements of net defined benefit liabilities	-	-	(23,062)	-	-	156	(22,906)
Exchange differences on translating foreign operations	-	-	45,143	-	-	-	45,143
Change in value of financial investments	-	-	(28,862)	-	-	(107)	(28,969)
Share of other comprehensive income of associates	-	-	222	-	-	-	222
Cash flow hedges	-	-	601	-	-	124	725
Losses on hedges of a net investment in a foreign operation	-	-	(25,477)	-	-	-	(25,477)
Total comprehensive income	-	-	(31,435)	1,698,318	-	29,161	1,696,044
Transactions with shareholders							
Dividends paid to shareholders of the Parent Company	-	-	-	(301,354)	-	(4,640)	(305,994)
Total transactions with shareholders	-	-	-	(301,354)	-	(4,640)	(305,994)
Balance at December 31, 2015	₩ 1,931,758	₩ 15,854,510	₩ 430,244	₩ 10,464,109	₩ -	₩ 222,101	₩ 28,902,722
Balance at January 1, 2016	₩ 1,931,758	₩ 15,854,510	₩ 430,244	₩ 10,464,109	₩ -	₩ 222,101	₩ 28,902,722
Comprehensive income							
Profit for the period	-	-	-	2,143,744	-	46,436	2,190,180
Remeasurements of net defined benefit liabilities	-	-	12,821	-	-	(150)	12,671
Exchange differences on translating foreign operations	-	-	20,148	-	-	-	20,148
Change in value of financial investments	-	-	(47,794)	-	-	(77)	(47,871)
Shares of other comprehensive income of associates	-	-	(7,093)	-	-	-	(7,093)
Cash flow hedges	-	-	4,098	-	-	205	4,303
Losses on hedges of a net investment in a foreign operation	-	-	(7,095)	-	-	-	(7,095)
Total comprehensive income	-	-	(24,915)	2,143,744	-	46,414	2,165,243
Transactions with shareholders							
Dividends paid to shareholders of the Parent Company	-	-	-	(378,625)	-	(5,156)	(383,781)
Acquisition of treasury shares	-	-	-	-	(721,973)	-	(721,973)
Issue of ordinary shares related to business combination	158,800	1,142,359	-	-	-	-	1,301,159
Others	-	(1,967)	-	-	-	-	(1,967)
Total transactions with shareholders	158,800	1,140,392	-	(378,625)	(721,973)	(5,156)	193,438
Balance at December 31, 2016	₩ 2,090,558	₩ 16,994,902	₩ 405,329	₩ 12,229,228	₩ (721,973)	₩ 263,359	₩ 31,261,403

The accompanying notes are an integral part of these separate financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31, 2016 and 2015

KB Financial Group Inc. and Subsidiaries

(in millions of Korean won)

	Notes	2016	2015
Cash flows from operating activities			
Profit for the period		₩ 2,190,180	₩ 1,727,306
Adjustment for non-cash items			
Net loss(gain) on financial assets/liabilities			
at fair value through profit or loss		401,556	(63,319)
Net loss on derivative financial instruments for hedging purposes		69,573	47,466
Adjustment of fair value of derivative financial instruments		338	1,771
Provision for credit loss		539,283	1,037,231
Net gain on financial investments		(139,800)	(166,911)
Share of profit of associates		(280,838)	(203,097)
Depreciation and amortization expense		289,438	257,457
Other net losses on property and equipment/intangible assets		5,259	9,458
Share-based payments		38,190	17,429
Policy reserve appropriation		366,145	659,501
Post-employment benefits		197,696	187,882
Net interest expense		421,679	431,157
Loss on foreign currency translation		15,931	228,727
Gains on bargain purchase		(628,614)	-
Net other expense		65,412	88,518
		1,361,248	2,533,270
Changes in operating assets and liabilities			
Financial asset at fair value through profit or loss		(1,463,824)	(418,431)
Derivative financial instruments		147,137	124,687
Loans		(16,423,939)	(14,847,214)
Current income tax assets		(8,868)	287,788
Deferred income tax assets		(87,701)	9,223
Other assets		1,393,689	(682,627)
Financial liabilities at fair value through profit or loss		356,880	1,296,333
Deposits		12,042,422	12,602,806
Deferred income tax liabilities		(150,333)	105,752
Other liability		1,768,096	(545,262)
		(2,426,441)	(2,066,945)
Net cash inflow from operating activities		1,124,987	2,193,631

The accompanying notes are an integral part of these consolidated financial statements.

(in millions of Korean won)

	Notes	2016	2015
Cash flows from investing activities			
Disposal of financial investments		28,066,113	21,648,312
Acquisition of financial investments		(30,737,148)	(25,688,235)
Disposal of investments in associates		106,658	40,350
Acquisition of investments in associates		(1,558,731)	(904,399)
Disposal of property and equipment		809	2,951
Acquisition of property and equipment		(397,157)	(229,210)
Acquisition of investment property		(1,254)	(4,289)
Disposal of intangible assets		8,330	3,761
Acquisition of intangible assets		(111,603)	(52,126)
Net cash flows from the change in subsidiaries		95,304	-
Others		90,141	107,555
Net cash outflow from investing activities		(4,438,538)	(5,075,330)
Cash flows from financing activities			
Net cash flows from derivative financial instruments for hedging purposes		11,035	(61,543)
Net increase in debts		1,849,513	178,497
Increase in debentures		99,305,813	80,263,530
Decrease in debentures		(98,484,764)	(77,062,704)
Increase in other payables from trust accounts		1,639,104	242,827
Dividends paid to shareholders of the Parent Company		(378,625)	(301,354)
Acquisition of treasury shares		(716,808)	-
Dividends paid to non-controlling interests		(5,156)	(4,640)
Others		(38,786)	652
Net cash inflow from financing activities		3,181,326	3,255,265
Effect of exchange rate changes on cash and cash equivalents		89,142	65,557
Net increase(decrease) in cash and cash equivalents		(43,083)	439,123
Cash and cash equivalents at the beginning of the period	39	7,457,919	7,018,796
Cash and cash equivalents at the end of the period	39	₩ 7,414,836	₩ 7,457,919

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

1. The Parent Company

KB Financial Group Inc. (the "Parent Company") was incorporated on September 29, 2008, under the Financial Holding Companies Act of Korea. KB Financial Group Inc. and its subsidiaries (the "Group") derive substantially all of their revenue and income from providing a broad range of banking and related financial services to consumers and corporations primarily in Korea and in selected international markets. The Parent Company's principal business includes ownership and management of subsidiaries and associated companies that are engaged in financial services or activities. In 2011, Kookmin Bank spun off its credit card business segment and established a new separate credit card company, KB Kookmin Card Co., Ltd., and KB Investment & Securities Co., Ltd. merged with KB Futures Co., Ltd. The Group established KB Savings Bank Co., Ltd. in January 2012, acquired Yehansoul Savings Bank Co., Ltd. in September 2013, and KB Savings Bank Co., Ltd. merged with Yehansoul Savings Bank Co., Ltd. in January 2014. In March 2014, the Group acquired Woori Financial Co., Ltd. and changed the name to KB Capital Co., Ltd. Meanwhile, the Group included LIG Insurance Co., Ltd. as an associate and changed the name to KB Insurance Co., Ltd. in June 2015. Also, the Group included Hyundai Securities Co., Ltd. as an associate in June 2016 and included as a subsidiary in October 2016 by comprehensive exchange of shares. Hyundai Securities Co., Ltd. merged with KB Investment&Securities Co., Ltd. in December 2016 and changed the name to KB Securities Co., Ltd. in January 2017.

The Parent Company's share capital as of December, 2016, is ₩ 2,090,558 million. The Parent Company has been listed on the Korea Exchange ("KRX") since October 10, 2008, and on the New York Stock Exchange ("NYSE") for its American Depositary Shares ("ADS") since September 29, 2008. Number of shares authorized in its Articles of Incorporation is 1,000 million.

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 ("Hangeul") in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS"). The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The consolidated financial statements of the Group have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. Management also needs to exercise judgment in 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 has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2016. The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

- Amendment to Korean IFRS 1001, Presentation of Financial Statements
- Amendment to Korean IFRS 1016, Property, plant and equipment, and Korean IFRS 1041, Agriculture and fishing: Productive plants
- Amendment to Korean IFRS 1016, Property, plant and equipment, and Korean IFRS 1038, Intangible assets: Amortization based on revenue

- Amendment to Korean IFRS 1110, Consolidated Financial Statements, Korean IFRS 1028, Investments in Associates and Joint Ventures
- Amendment to Korean IFRS 1111, Joint Arrangements
- Annual Improvements to Korean IFRS 2012-2014 Cycle

Certain new accounting standards and interpretations that have been published that are not mandatory for December 31, 2016 reporting periods and have not been early adopted by the Group are set out below.

- Amendments to Korean IFRS 1007, Statement of Cash Flows

Amendments to Korean IFRS 1007 Statement of Cash flows 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 amendments to have a significant impact on the consolidated financial statements.

- Amendments to Korean IFRS 1012, Income Tax

Amendments to Korean IFRS 1012 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Korean IFRS 1012 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments issued clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice. The Group will apply the amendments for annual periods beginning on or after January 1, 2017 with early application permitted. The Group does not expect the amendments to have a significant impact on the consolidated financial statements.

- Amendments to Korean IFRS 1102, Share-based Payment

Amendments to Korean IFRS 1102 clarifies accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. And also, clarifies that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. 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 amendments 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, measurement and 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 Korean IFRS 1109 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and the system stabilization. The impact on the Group's financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Group and macroeconomic variables.

Within the Group, Korean IFRS 1109 Task Force Team ('TFT') has been set up to prepare for implementation of Korean IFRS 1109 since October 2015. There are three stages for implementation of Korean IFRS, such as analysis, design and implementation, and preparation for application. The Group is analyzing the financial impacts of Korean IFRS 1109 on its consolidated financial statements.

Stage	Period	Process
1	From Oct. to Dec. 2015 (for 3 months)	Analysis of GAAP differences and development of methodology
2	From Jan. to Dec. 2016 (for 12 months)	Development of methodology, definition of business requirement, and the system development and test.
3	From Jan. 2017 to Mar. 2018 (for 15 months)	Preparation for opening balances of the financial statements

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. If a hybrid contract contains a host that is a financial asset, the classification of the hybrid contract shall be determined for the entire contract without separating the embedded derivative.

Business model	Contractual cash flows characteristics	
	Solely represent payments of principal and interest ¹	All other
Hold the financial asset for the collection of the contractual cash flows	Measured at amortized cost ¹	
Hold the financial asset for the collection of the contractual cash flows and trading	Measured at fair value through other comprehensive income ¹	Recognized at fair value through profit or loss ²
Hold for trading and others	Measured 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 A designation at fair value through other comprehensive income is allowed only if the financial instrument is the equity investment that is not held for trading (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 an extended fluctuation in profit or loss.

(b) Classification and Measurement of Financial Liabilities

Korean IFRS 1109 requires the amount of the change in the liability's fair value attributable to changes in the credit risk to be recognized in other comprehensive income, unless this treatment of the credit risk component creates or enlarges a measurement mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

Under Korean IFRS 1039, all financial liabilities designated at fair value through profit or loss recognized their fair value movements in profit or loss. However, under Korean IFRS 1109, certain fair value movements will be recognized in other comprehensive income and as a result, profit or loss from fair value movements may decrease.

(c) Impairment: Financial Assets and Contract Assets

Korean IFRS 1109 sets out a new forward looking 'expected credit loss impairment model' which replaces the incurred loss model under Korean IFRS 1039 that impaired asset if there is 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, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognized. The Group

will always recognize (at a minimum) 12-month expected credit losses in profit or loss. Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

	Stage	Process
1	No significant increase in credit risk after initial recognition	12-month expected credit losses: expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date
2	Significant increase in credit risk after initial recognition	Lifetime expected credit losses: expected credit losses that result from all possible default events over the life of the financial instrument
3	Objective evidence of impairment	

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.

The Group will apply new standard for annual reporting periods beginning on or after January 1, 2018 with early application permitted. The Group is analyzing financial impacts of Korean IFRS 1115 on its consolidated financial statements.

2.2 Measurement Basis

The consolidated financial statements have been prepared under the historical cost convention unless otherwise specified.

2.3 Functional and Presentation Currency

Items included in the financial statements of each entity of the Group 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. (Note 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 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 where no active market exists or where quoted prices are not otherwise available is determined by using valuation techniques. Financial instruments, which are not actively traded in the market and those with less transparent market prices, will have less objective fair values and require broad judgment on liquidity, concentration, uncertainty in market factors and assumptions in price determination and other risks.

As described in the significant accounting policies in Note 3.3, ‘Recognition and Measurement of Financial Instruments’, diverse valuation techniques are used to determine the fair value of financial instruments, from generally accepted market valuation models to internally developed valuation models that incorporate various types of assumptions and variables.

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 24).

2.4.5 Impairment of goodwill

The recoverable amounts of cash-generating units have been determined based on value-in-use calculations to test whether goodwill has suffered any impairment (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.

The Group applies the acquisition method to account for business combinations. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis in the event of liquidation, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

The Group applies the book amount method to account for business combinations of entities under a common control. Identifiable assets acquired and liabilities assumed in a business combination are measured at their book amounts on the consolidated financial statements of the Group. In addition, the difference between the sum of consolidated book amounts of the assets and liabilities transferred and accumulated other comprehensive income; and the consideration paid is recognized as capital surplus.

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 of 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 statements of comprehensive income.

3.1.3 Structured entity

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. When the Group decides whether it has power to the structured entities in which the Group has interests, it considers factors such as the purpose, the form, the practical ability to direct the relevant activities of a structured entity, the nature of its relationship with a structured entity and the amount of exposure to variable returns.

3.1.4 Trusts and funds

The Group provides management services for trust assets, collective investment and other funds. These trusts and funds are not consolidated in the Group's consolidated financial statements, except for trusts and funds over which the Group has control.

3.1.5 Intra-group transactions

All intra-group balances and transactions, and any unrealized gains arising on intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

3.2 Foreign Currency

3.2.1 Foreign currency transactions

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 redistributes 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 entirety and recognize a financial liability for the consideration received.

Derecognition of financial liabilities

Financial liabilities are derecognized from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires.

3.3.4 Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

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.

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 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

The amount of the loss on loans and receivables carried at amortized cost 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).

Financial assets that are not individually significant assess objective evidence of impairment individually or collectively. 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 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. 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) and the risk of changes in cash flow (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 portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument is recognized in profit 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 and the ineffective portion is recognized in profit. The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognized in other comprehensive income will be reclassified from other comprehensive income to profit or loss as a reclassification adjustment on the disposal or partial disposal of the foreign operation in accordance with Korean IFRS 1039, Financial Instruments: Recognition and Measurement.

3.7.5 Embedded derivatives

An embedded derivative is separated from the host contract and accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss. Gains or losses arising from a change in the fair value of an embedded derivative separated from the host contract are recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss.

3.7.6 Day one gain and loss

If the Group uses a valuation technique that incorporates data not obtained from observable markets for the fair value at initial recognition of the financial instrument, there may be a difference between the transaction price and the amount determined using that valuation technique. In these circumstances, the difference is deferred and not recognized in profit or loss, and is amortized by using the straight-line method over the life of the financial instrument. If the fair value of the financial instrument is subsequently determined using observable market inputs, the remaining deferred amount is recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss or other operating income and expenses.

3.8 Property and Equipment

3.8.1 Recognition and measurement

All property and equipment that qualify for recognition as an asset are measured at cost and subsequently carried at cost less any accumulated depreciation and any accumulated impairment losses.

The cost of property and equipment includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent expenditures are capitalized only when they prolong the useful life or enhance values of the assets but the costs of the day-to-day servicing of the assets such as repair and maintenance costs are recognized in profit or loss as incurred. When part of an item of an asset has a useful life different from that of the entire asset, it is recognized as a separate asset.

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.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method and estimated useful lives of the assets are as follows:

Property and equipment	Depreciation method	Estimated useful life
Buildings and structures	Straight-line	40 years
Leasehold improvements	Declining-balance/ Straight-line	4 years
Equipment and vehicles	Declining-balance/ Straight-line	3~8 years
Finance leased assets	Declining-balance	8 months ~ 5 years and 8 months

The residual value, the useful life and the depreciation method applied to an asset are reviewed at least at each financial year end, if expectations differ from previous estimates, 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 property	Depreciation method	Estimated useful life
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, 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 life
Industrial property rights	Straight-line	3~10 years
Software	Straight-line	3~5 years
Finance leased assets	Straight-line	8 months ~ 5 years and 8 months
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 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 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.

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.

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 this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. A non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell which is measured in accordance with the applicable Korean IFRS, immediately before the initial classification of the asset (or disposal group) as held for sale.

A non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale is not depreciated (or amortized).

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 Insurance Contracts

KB Life Insurance Co., Ltd., one of the subsidiaries of the Group, issues insurance contracts.

Insurance contracts are defined as “a contract under which one party (the insurer) accepts significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder”. A contract that qualifies as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Such a contract that does not contain significant insurance risk is classified as an investment contract and is within the scope of Korean IFRS 1039, Financial Instruments: Recognition and measurement to the extent that it gives rise to a financial asset or financial liability, except if the investment contract contains a Discretionary Participation Features (DPF). If the contract has a DPF, the contract is subject to Korean IFRS 1104, Insurance Contracts. The Group recognizes assets (liabilities) and gains (losses) relating to insurance contracts as other assets (liabilities) in the statements of financial position, and as other operating income (expenses) in the statements of comprehensive income, respectively.

3.16.1 Insurance premiums

The Group recognizes collected premiums as revenue on the due date of collection of premiums from insurance contracts and the collected premium which is unearned at the end of the reporting period is recognized as unearned premium.

3.16.2 Insurance liabilities

The Group recognizes a liability for future claims, refunds, policyholders' dividends and related expenses as follows:

Premium reserve

A premium reserve refers to an amount based on the net premium method for payment of future claims with respect to events covered by insurance policies which have not yet occurred as of the reporting period.

Reserve for outstanding claims

A reserve for outstanding claims refers to the amount not yet paid, out of an amount to be paid or expected to be paid with respect to the insured events which have arisen as of the end of each fiscal year.

Unearned premium reserve

Unearned premium refers to the portion of the premium that has been paid in advance for insurance that has not yet been provided. An unearned premium reserve refers to the amount maintained by the insurer to refund in the event of either party cancelling the contract.

Policyholders' dividends reserve

Policyholders' dividends reserve including an interest rate guarantee reserve, a mortality dividend reserve and an interest rate difference dividend reserve is recognized for the purpose of provisioning for policyholders' dividends in the future in accordance with statutes or insurance terms and conditions.

3.16.3 Liability adequacy test

The Group assesses at each reporting period whether its insurance liabilities are adequate, using current estimates of all future contractual cash flows and related cash flow such as claims handling cost, as well as cash flows resulting from embedded options and guarantees under its insurance contracts in accordance with Korean IFRS 1104. If the assessment shows that the carrying amount of its insurance liabilities is inadequate in light of the estimated future cash flows, the entire deficiency is recognized in profit or loss and reserved as insurance liabilities. Future cash flows from long-term insurance are discounted at a future rate of return on operating assets, whereas future cash flows from general insurance are not discounted to present value. For liability adequacy tests of premium and unearned premium reserves, the Group considers all cash flow factors such as future insurance premium, deferred acquisition costs, operating expenses and operating premiums. In relation to the reserve for outstanding claims, the Group elects a model that best reflects the trend of paid claims among several statistical methods to perform the adequacy test.

3.16.4 Deferred acquisition costs

Acquisition cost is deferred in an amount actually spent for an insurance contract and equally amortized over the premium payment period or the period in which acquisition costs are charged for the relevant insurance contract. Acquisition costs are amortized over the shorter of seven years or premium payment period; if there is any unamortized acquisition costs remaining as of the date of surrender or lapse, such remainder shall be amortized in the period in which the contract is surrendered or lapsed.

3.17 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.

3.18 Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the issuer (the Group) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

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.

3.19 Equity Instruments 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.

3.19.1 Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted from the equity.

3.19.2 Treasury shares

If entities of the Group acquire the Parent Company's equity instruments, those instruments ('treasury shares') are deducted from equity. No gains or losses are recognized in profit or loss on the purchase, sale, issue or cancellation of own equity instruments.

3.20 Revenue Recognition

3.20.1 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.

3.20.2 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.

3.20.3 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.

3.21 Employee Compensation and Benefits

3.21.1 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 defined benefit liability is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period.

The present value of the defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit method. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The currency and term of the corporate bonds are consistent with the currency and estimated term of the post-employment benefit obligations. Actuarial gains and losses including experience adjustments and the effects of changes in actuarial assumptions are recognized in other comprehensive income.

When the total of the present value of the defined benefit obligation minus the fair value of plan assets results in an asset, it is recognized to the extent of the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Past service cost is the change in the present value of the defined benefit obligation, which arises when the Group introduces a defined benefit plan or changes the benefits of an existing defined benefit plan. Such past service cost is immediately recognized as an expense for the year.

Defined contribution plans

The contributions are recognized as employee benefit expense when they are due.

3.21.2 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.

3.21.3 Share-based payment

The Group has share option and share grant programs to directors and employees of the Group. When the options are exercised, the Group can either select to issue new shares or distribute treasury shares, or compensate the difference in fair value of shares and exercise 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 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, and the fair value is recognized as expense and accrued expenses over 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 year.

3.21.4 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.

3.22 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) a transaction or an event which is recognized, in the same or a different period outside profit or loss, either in other comprehensive income or directly in equity and (b) a business combination.

3.22.1 Current income tax

Current income tax is the amount of income taxes 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 offset the recognized amounts and (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.22.2 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 financial statements. Deferred income tax liabilities are recognized for all taxable temporary differences and deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liabilities for which the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of a deferred income tax asset is reviewed at the end of each reporting period. The Group reduces the carrying amount of a deferred income tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred income tax liabilities and deferred income tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Group offsets deferred income tax assets and deferred income tax liabilities when the Group has a legally enforceable right to 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.

3.22.3 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.

3.23 Earnings per Share

The Group calculates basic earnings per share amounts and diluted earnings per share amounts for profit or loss attributable to ordinary equity holders of the Parent Company and presents them in the statement of comprehensive income. Basic earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the period. For the purpose of calculating diluted earnings per share, the Group adjusts profit or loss attributable to ordinary equity holders of the Parent Company and the weighted average number of shares outstanding for the effects of all dilutive potential ordinary shares including convertible bonds and share options.

3.24 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 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 and managed in Economic Capital or VaR (Value at Risk) using a statistical method.

4.1.2 Risk Management Organization

Risk Management Committee

The Risk Management Committee establishes risk management strategies in accordance with the directives of the Board of Directors and determines the Group's target risk appetite. The Committee 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 Division

The Risk Management Division is responsible for monitoring and managing the Group's economic capital limit and managing detailed

policies, procedures and working 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 team that focuses on credit risk management in accordance with the Group's credit risk management policy. Especially, the loan analysis department of Kookmin Bank, one of the subsidiaries, is responsible for loan policy, loan limit, loan review, credit management, restructuring and subsequent event management, independently of operating department. On the other hand, risk management group of Kookmin Bank is 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, 2016 and 2015, are as follows:

	(In millions of Korean won)	
	2016	2015
Financial assets		
Due from financial institutions	₩ 15,326,173	₩ 13,844,754
Financial assets at fair value through profit or loss		
Financial assets held for trading ¹	23,058,919	9,393,203
Financial assets designated at fair value through profit or loss	1,693,255	943,432
Derivatives	3,381,935	2,278,112
Loans ²	265,486,134	245,005,370
Financial investments		
Available-for-sale financial assets	27,445,752	21,610,663
Held-to-maturity financial assets	11,177,504	14,149,528
Other financial assets ²	7,322,335	7,907,940
	354,892,007	315,133,002
Off-balance sheet items		
Acceptances and guarantees contracts	7,822,124	8,932,463
Financial guarantee contracts	4,746,292	4,021,013
Commitments	97,005,556	97,602,903
	109,573,972	110,556,379
	₩ 464,465,979	₩ 425,689,381

¹ Financial instruments indexed to the price of gold amounting to ₩ 72,349 million and ₩ 69,060 million as of December 31, 2016 and 2015, respectively, are included.

² Loans and other financial assets are net of allowance.

4.2.4 Credit Risk of Loans

The Group maintains an allowance for loan losses associated with credit risk on loans to manage its credit risk.

The Group recognizes an impairment loss on loan carried at amortized cost when there is any objective indication of impairment. Impairment loss is defined as incurred loss in accordance with Korean IFRS; therefore, a loss that might be occur due to a future event is not recognized in spite of its likelihood. The Group measures inherent incurred losses on loans and presents them in the consolidated financial statements through the use of an allowance account which is offset against the related loans.

Loans as of December 31, 2016 and 2015, are classified as follows:

(In millions of Korean won)

Loans	2016							
	Retail		Corporate		Credit card		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Neither past due nor impaired	₩ 133,491,252	98.86	₩ 117,346,453	98.44	₩ 13,001,473	96.09	₩ 263,839,178	98.53
Past due but not impaired	961,370	0.71	202,474	0.17	226,648	1.68	1,390,492	0.52
Impaired	575,711	0.43	1,656,387	1.39	302,122	2.23	2,534,220	0.95
	135,028,333	100.00	119,205,314	100.00	13,530,243	100.00	267,763,890	100.00
Less: Allowances ¹	(481,289)	0.36	(1,382,172)	1.16	(414,295)	3.06	(2,277,756)	0.85
Carrying amount	₩ 134,547,044		₩ 117,823,142		₩ 13,115,948		₩ 265,486,134	

(In millions of Korean won)

Loans	2015							
	Retail		Corporate		Credit card		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Neither past due nor impaired	₩ 122,397,940	98.52	₩ 108,822,470	97.85	₩ 11,640,909	95.92	₩ 242,861,319	98.09
Past due but not impaired	1,225,908	0.99	288,053	0.26	216,829	1.79	1,730,790	0.70
Impaired	612,065	0.49	2,105,063	1.89	278,187	2.29	2,995,315	1.21
	124,235,913	100.00	111,215,586	100.00	12,135,925	100.00	247,587,424	100.00
Less: Allowances ¹	(491,352)	0.40	(1,692,352)	1.52	(398,350)	3.28	(2,582,054)	1.04
Carrying amount	₩ 123,744,561		₩ 109,523,234		₩ 11,737,575		₩ 245,005,370	

¹ Collectively assessed allowances for loans are included as they are not impaired individually.

Credit quality of loans that are neither past due nor impaired are as follows:

(In millions of Korean won)

	2016						
	Retail		Corporate		Credit card		Total
Grade 1	₩	110,720,263	₩	57,754,882	₩	6,804,763	₩ 175,279,908
Grade 2		18,400,111		49,531,423		4,774,368	72,705,902
Grade 3		3,188,861		7,722,663		1,147,814	12,059,338
Grade 4		935,265		1,728,631		249,529	2,913,425
Grade 5		246,752		608,854		24,999	880,605
	₩	133,491,252	₩	117,346,453	₩	13,001,473	₩ 263,839,178

(In millions of Korean won)

	2015							
	Retail		Corporate		Credit card		Total	
Grade 1	₩	102,454,299	₩	49,891,311	₩	6,009,760	₩	158,355,370
Grade 2		16,018,879		46,344,267		4,288,164		66,651,310
Grade 3		2,794,511		10,076,423		1,303,101		14,174,035
Grade 4		860,517		1,916,606		32,293		2,809,416
Grade 5		269,734		593,863		7,591		871,188
	₩	122,397,940	₩	108,822,470	₩	11,640,909	₩	242,861,319

Credit quality of loans graded according to internal credit ratings are as follows:

(In millions of Korean won)

	Range of Probability of Default (%)	Retail	Corporate
Grade 1	0.0 ~ 1.0	1 ~ 5 grade	AAA ~ BBB+
Grade 2	1.0 ~ 5.0	6 ~ 8 grade	BBB ~ BB
Grade 3	5.0 ~ 15.0	9 ~ 10 grade	BB- ~ B
Grade 4	15.0 ~ 30.0	11 grade	B- ~ CCC
Grade 5	30.0 ~	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		90 days or more		Total	
Retail	₩	782,262	₩	119,667	₩	57,187	₩	2,254	₩	961,370
Corporate		134,432		44,086		23,956		-		202,474
Credit card		176,390		31,880		18,378		-		226,648
	₩	1,093,084	₩	195,633	₩	99,521	₩	2,254	₩	1,390,492

(In millions of Korean won)

	2015									
	1 ~ 29 days		30 ~ 59 days		60 ~ 89 days		90 days or more		Total	
Retail	₩	982,702	₩	168,391	₩	72,626	₩	2,189	₩	1,225,908
Corporate		218,258		56,531		13,264		-		288,053
Credit card		170,600		32,121		14,099		9		216,829
	₩	1,371,560	₩	257,043	₩	99,989	₩	2,198	₩	1,730,790

Impaired loans are as follows:

(In millions of Korean won)

	2016							
	Retail		Corporate		Credit card		Total	
Loans	₩	575,711	₩	1,656,387	₩	302,122	₩	2,534,220
Allowances under								
Individual assessment		(3)		(860,829)		-		(860,832)
Collective assessment		(217,535)		(133,507)		(183,211)		(534,253)
		(217,538)		(994,336)		(183,211)		(1,395,085)
	₩	358,173	₩	662,051	₩	118,911	₩	1,139,135

(In millions of Korean won)

	2015							
	Retail		Corporate		Credit card		Total	
Loans	₩	612,065	₩	2,105,063	₩	278,187	₩	2,995,315
Allowances under								
Individual assessment		(2)		(1,025,771)		-		(1,025,773)
Collective assessment		(238,011)		(184,803)		(207,321)		(630,135)
		(238,013)		(1,210,574)		(207,321)		(1,655,908)
	₩	374,052	₩	894,489	₩	70,866	₩	1,339,407

The quantification of the extent to which collateral and other credit enhancements mitigate credit risk as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016									
	Impaired Loans			Non-impaired Loans			Total			
	Individual	Collective	Past due	Not past due						
Guarantees	₩	21,168	₩	131,752	₩	207,493	₩	52,994,315	₩	53,354,728
Deposits and savings		10,849		6,114		51,815		2,115,376		2,184,154
Property and equipment		7,083		25,035		28,053		5,380,329		5,440,500
Real estate		262,340		341,803		590,196		137,263,717		138,458,056
	₩	301,440	₩	504,704	₩	877,557	₩	197,753,737	₩	199,437,438

(In millions of Korean won)

	2015									
	Impaired Loans			Non-impaired Loans			Total			
	Individual	Collective	Past due	Not past due						
Guarantees	₩	26,150	₩	165,024	₩	308,702	₩	45,292,758	₩	45,792,634
Deposits and savings		608		9,986		48,584		2,241,837		2,301,015
Property and equipment		10,191		39,937		41,453		3,894,338		3,985,919
Real estate		270,802		440,710		829,470		129,302,361		130,843,343
	₩	307,751	₩	655,657	₩	1,228,209	₩	180,731,294	₩	182,922,911

4.2.5 Credit Quality of Securities

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	₩	63,298,248	₩	46,022,194
Impaired securities		4,833		5,572
	₩	63,303,081	₩	46,027,766

The credit quality of securities, excluding equity securities, that are neither past due nor impaired as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016					
	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Total
Securities that are neither past due nor impaired						
Financial assets held for trading	₩ 20,101,364	₩ 2,752,038	₩ 46,113	₩ 18,397	₩ 68,658	₩ 22,986,570
Financial assets designated at fair value through profit or loss	1,563,152	120,925	8,176	-	1,002	1,693,255
Available-for-sale financial assets	26,082,139	1,310,782	47,998	-	-	27,440,919
Held-to-maturity financial assets	11,177,504	-	-	-	-	11,177,504
	₩ 58,924,159	₩ 4,183,745	₩ 102,287	₩ 18,397	₩ 69,660	₩ 63,298,248

(In millions of Korean won)

	2015					
	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Total
Securities that are neither past due nor impaired						
Financial assets held for trading	₩ 7,833,558	₩ 1,481,177	₩ 9,408	₩ -	₩ -	₩ 9,324,143
Financial assets designated at fair value through profit or loss	701,117	242,315	-	-	-	943,432
Available-for-sale financial assets	20,316,248	1,223,446	65,397	-	-	21,605,091
Held-to-maturity financial assets	14,149,528	-	-	-	-	14,149,528
	₩ 43,000,451	₩ 2,946,938	₩ 74,805	₩ -	₩ -	₩ 46,022,194

The credit qualities of securities, excluding equity securities, according to the credit ratings by external rating agencies are as follows:

(In millions of Korean won)

Credit quality	Domestic				Foreign		
	KAP	KIS	NICE P&I	FnPricing Inc.	S&P	Fitch-IBCA	Moody's
Grade 1	AA0 to AAA	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-	A- to AA-	BBB- to BBB+	BBB- to BBB+	Baa3 to Baa1
Grade 3	BBB0 to BBB+	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-	BB0 to BBB-	B+ to BB-	B+ to BB-	B1 to Ba3
Grade 5	BB- or under	BB- or under	BB- or under	BB- or under	B or under	B or under	B2 or under

Credit qualities of debit securities denominated in Korean won are based on the lowest credit rating by the domestic credit rating agencies above, and those denominated in foreign currencies are based on the lowest credit rating by the foreign credit rating agencies above.

4.2.6 Credit risk mitigation of derivative financial instruments

A quantification of the extent to which collateral and other credit enhancements mitigate credit risk of derivative financial instruments as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
Deposits and savings, securities and others	₩	478,567	₩	424,559
	₩	478,567	₩	424,559

4.2.7 Credit Risk Concentration Analysis

Details of the Group's regional loans as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016						
	Retail	Corporate	Credit card	Total	%	Allowances	Carrying amount
Korea	₩ 134,956,004	₩ 116,271,176	₩ 13,526,026	₩ 264,753,206	98.88	₩ (2,234,971)	₩ 262,518,235
Europe	1	206,580	245	206,826	0.08	(1,719)	205,107
China	-	1,328,525	2,570	1,331,095	0.50	(23,500)	1,307,595
Japan	1,352	90,977	205	92,534	0.03	(10,385)	82,149
United States	-	984,472	566	985,038	0.37	(2,032)	983,006
Others	70,976	323,584	631	395,191	0.14	(5,149)	390,042
	₩ 135,028,333	₩ 119,205,314	₩ 13,530,243	₩ 267,763,890	100.00	₩ (2,277,756)	₩ 265,486,134

(In millions of Korean won)

	2015							
	Retail	Corporate	Credit card	Total	%	Allowances	Carrying amount	
Korea	₩ 124,193,500	₩ 108,847,327	₩ 12,131,934	₩ 245,172,761	99.02	₩ (2,539,225)	₩ 242,633,536	
Europe	1	180,429	250	180,680	0.07	(513)	180,167	
China	30	905,693	1,632	907,355	0.37	(17,677)	889,678	
Japan	1,737	138,278	282	140,297	0.06	(21,404)	118,893	
United States	-	925,391	915	926,306	0.37	(1,058)	925,248	
Others	40,645	218,468	912	260,025	0.11	(2,177)	257,848	
	₩ 124,235,913	₩ 111,215,586	₩ 12,135,925	₩ 247,587,424	100.00	₩ (2,582,054)	₩ 245,005,370	

Details of the Group's industrial corporate loans as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016			
	Loans	%	Allowances	Carrying amount
Financial institutions	₩ 10,603,474	8.90	₩ (20,870)	₩ 10,582,604
Manufacturing	36,505,044	30.62	(539,512)	35,965,532
Service	48,529,236	40.71	(307,132)	48,222,104
Wholesale & Retail	14,246,756	11.95	(116,233)	14,130,523
Construction	3,381,470	2.84	(357,439)	3,024,031
Public sector	886,583	0.74	(6,318)	880,265
Others	5,052,751	4.24	(34,668)	5,018,083
	₩ 119,205,314	100.00	₩ (1,382,172)	₩ 117,823,142

(In millions of Korean won)

	2015			
	Loans	%	Allowances	Carrying amount
Financial institutions	₩ 9,069,588	8.15	₩ (17,342)	₩ 9,052,246
Manufacturing	35,373,084	31.81	(808,946)	34,564,138
Service	44,371,655	39.90	(353,928)	44,017,727
Wholesale & Retail	13,703,559	12.32	(155,919)	13,547,640
Construction	3,568,970	3.21	(300,513)	3,268,457
Public sector	811,542	0.73	(5,239)	806,303
Others	4,317,188	3.88	(50,465)	4,266,723
	₩ 111,215,586	100.00	₩ (1,692,352)	₩ 109,523,234

Types of the Group's retail and credit card loans as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016			
	Loans	%	Allowances	Carrying amount
Housing	₩ 59,015,452	39.73	₩ (22,787)	₩ 58,992,665
General	76,012,881	51.17	(458,502)	75,554,379
Credit card	13,530,243	9.10	(414,295)	13,115,948
	₩ 148,558,576	100.00	₩ (895,584)	₩ 147,662,992

(In millions of Korean won)

	2015			
	Loans	%	Allowances	Carrying amount
Housing	₩ 53,780,078	39.44	₩ (24,628)	₩ 53,755,450
General	70,455,835	51.66	(466,724)	69,989,111
Credit card	12,135,925	8.90	(398,350)	11,737,575
	₩ 136,371,838	100.00	₩ (889,702)	₩ 135,482,136

Details of the Group's industrial securities, excluding equity securities, and derivative financial instruments 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	₩ 7,875,106	34.26
Banking and insurance	11,408,503	49.63
Others	3,702,961	16.11
	22,986,570	100.00
Financial assets designated at fair value through profit or loss		
Banking and insurance and others	1,693,255	100.00
	1,693,255	100.00
Derivative financial assets		
Government and government funded institutions	104,025	3.08
Banking and insurance	2,998,412	88.66
Others	279,498	8.26
	3,381,935	100.00
Available-for-sale financial assets		
Government and government funded institutions	10,579,880	38.55
Banking and insurance	13,901,908	50.65
Others	2,963,964	10.80
	27,445,752	100.00

	2016	
	Amount	%
Held-to-maturity financial assets		
Government and government funded institutions	5,373,994	48.08
Banking and insurance	5,471,443	48.95
Others	332,067	2.97
	11,177,504	100.00
	₩	66,685,016

(In millions of Korean won)

	2015	
	Amount	%
Financial assets held for trading		
Government and government funded institutions	₩ 3,497,273	37.51
Banking and insurance	4,289,872	46.01
Others	1,536,998	16.48
	9,324,143	100.00
Financial assets designated at fair value through profit or loss		
Banking and insurance	943,432	100.00
	943,432	100.00
Derivative financial assets		
Government and government funded institutions	56,652	2.49
Banking and insurance	1,950,708	85.63
Others	270,752	11.88
	2,278,112	100.00
Available-for-sale financial assets		
Government and government funded institutions	6,311,207	29.20
Banking and insurance	12,457,467	57.65
Others	2,841,989	13.15
	21,610,663	100.00
Held-to-maturity financial assets		
Government and government funded institutions	7,304,689	51.62
Banking and insurance	6,027,712	42.60
Others	817,127	5.78
	14,149,528	100.00
	₩	48,305,878

Details of the Group's regional 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	₩ 22,359,665	97.27
United States	141,022	0.61
Others	485,883	2.12
	22,986,570	100.00
Financial assets designated at fair value through profit or loss		
Korea	1,232,226	72.77
United States	72,837	4.30
Others	388,192	22.93
	1,693,255	100.00
Derivative financial assets		
Korea	2,323,198	68.69
United States	291,160	8.61
Others	767,577	22.70
	3,381,935	100.00
Available-for-sale financial assets		
Korea	26,855,024	97.85
United States	141,473	0.52
Others	449,255	1.63
	27,445,752	100.00
Held-to-maturity financial assets		
Korea	10,029,429	89.73
United States	193,360	1.73
Others	954,715	8.54
	11,177,504	100.00
	₩ 66,685,016	

(In millions of Korean won)

	2015	
	Amount	%
Financial assets held for trading		
Korea	₩ 9,292,386	99.66
Others	31,757	0.34
	9,324,143	100.00
Financial assets designated at fair value through profit or loss		
Korea	542,752	57.53
United States	78,944	8.37
Others	321,736	34.10
	943,432	100.00

	2015	
	Amount	%
Derivative financial assets		
Korea	1,286,340	56.47
United States	300,257	13.18
Others	691,515	30.35
	2,278,112	100.00
Available-for-sale financial assets		
Korea	21,217,086	98.18
United States	127,426	0.59
Others	266,151	1.23
	21,610,663	100.00
Held-to-maturity financial assets		
Korea	13,774,488	97.35
Others	375,040	2.65
	14,149,528	100.00
	₩	48,305,878

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 a risk that the Group becomes insolvency due to uncertain liquidity caused by unexpected cash outflows, or a risk of borrowing high interest debts or disposal of liquid and other assets at a substantial discount. 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 cash flow, and off-balance sheet items related to cash flow of currency derivative instruments and others.

Cash flows disclosed for the maturity analysis are undiscounted contractual principal and interest to be received (paid) and; thus, are not identical to the amount in the financial statements that are based on the present value of expected cash flows in some cases. 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 the maturity.

4.3.2. Liquidity Risk Management and Indicator

The liquidity risk is managed by risk management policy and liquidity risk management guidelines which are applied to the risk management policies and procedures that address all the possible risks that arise from the overall business of the Group.

The Group computes and manages cumulative liquidity gap and liquidity rate subject to every transactions that affect cash flow in Korean won and foreign currencies and off-balance sheet transactions in relation to the liquidity. The Group regularly reports to the Risk Planning Council and Risk Management Committee.

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, are not identical to the amount in the consolidated financial statements that 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 the maturity.

The remaining contractual maturity of financial assets and liabilities, excluding derivatives held for cash flow hedging, as of December 31, 2016 and 2015, are 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	₩ 6,431,488	₩ 815,026	₩ 414,076	₩ 629,696	₩ 353,581	₩ -	₩ 8,643,867
Financial assets held for trading ²	26,099,518	-	-	-	-	-	26,099,518
Financial assets designated at fair value through profit or loss ²	1,758,846	-	-	-	-	-	1,758,846
Derivatives held for trading ²	3,263,115	-	-	-	-	-	3,263,115
Derivatives held for fair value hedging ³	-	4,075	1,719	1,791	(584)	53,185	60,186
Loans	25,333	24,246,878	27,731,932	88,710,331	73,969,738	90,290,586	304,974,798
Available-for-sale financial assets ⁴	6,444,890	617,457	1,734,077	6,027,364	17,804,826	3,916,630	36,545,244
Held-to-maturity financial assets	-	280,822	552,875	1,423,078	6,478,050	4,457,977	13,192,802
Other financial assets	138,840	5,316,491	34,215	1,188,493	42,957	10,408	6,731,404
	₩ 44,162,030	₩ 31,280,749	₩ 30,468,894	₩ 97,980,753	₩ 98,648,568	₩ 98,728,786	₩ 401,269,780
Financial liabilities							
Financial liabilities held for trading ²	₩ 1,143,510	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 1,143,510
Financial liabilities designated at fair value through profit or loss ²	10,979,326	-	-	-	-	-	10,979,326
Derivatives held for trading ²	3,712,015	-	-	-	-	-	3,712,015
Derivatives held for fair value hedging ³	(1,145)	3,462	(5,114)	8,081	(37,880)	-	(32,596)
Deposits ⁵	118,054,880	13,886,329	24,840,830	72,178,631	10,393,616	3,790,933	243,145,219
Debts	8,473,706	5,830,600	3,567,985	5,124,571	4,195,123	116,023	27,308,008
Debentures	52,188	2,078,866	2,403,874	7,493,938	20,673,639	3,273,158	35,975,663
Other financial liabilities	1,656,767	10,969,703	29,248	114,381	354,976	895,950	14,021,025
	₩ 144,071,247	₩ 32,768,960	₩ 30,836,823	₩ 84,919,602	₩ 35,579,474	₩ 8,076,064	₩ 336,252,170
Off- balance sheet items							
Commitments ⁶	₩ 97,005,556	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 97,005,556
Financial guarantee contract ⁷	4,746,292	-	-	-	-	-	4,746,292
	₩ 101,751,848	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 101,751,848

(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	₩ 6,433,873	₩ 771,135	₩ 926,476	₩ 973,720	₩ 101,056	₩ -	₩ 9,206,260
Financial assets held for trading ²	10,035,096	-	-	-	-	-	10,035,096
Financial assets designated							
at fair value through profit or loss ²	1,138,968	-	-	-	-	-	1,138,968
Derivatives held for trading ²	2,165,959	-	-	-	-	-	2,165,959
Derivatives held for							
fair value hedging ³	-	5,391	18,885	14,358	38,972	111,268	188,874
Loans	55,658	21,389,266	24,657,307	83,314,942	65,396,136	89,038,702	283,852,011
Available-for-sale							
financial assets ⁴	3,106,189	879,570	1,733,861	5,468,592	12,984,938	1,923,776	26,096,926
Held-to-maturity financial assets	-	462,871	1,113,714	2,653,041	8,593,322	3,223,951	16,046,899
Other financial assets	185,712	5,894,880	26,462	1,225,891	10,546	10,055	7,353,546
	₩ 23,121,455	₩ 29,403,113	₩ 28,476,705	₩ 93,650,544	₩ 87,124,970	₩ 94,307,752	₩ 356,084,539
Financial liabilities							
Financial liabilities held for trading ²	₩ 586,923	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 586,923
Financial liabilities designated							
at fair value through profit or loss ²	2,387,681	-	-	-	-	-	2,387,681
Derivatives held for trading ²	2,282,781	-	-	-	-	-	2,282,781
Derivatives held for							
fair value hedging ³	-	1,981	945	(2,642)	(25,096)	(35,050)	(59,862)
Deposits ⁵	100,409,376	14,756,423	25,041,672	73,797,488	10,965,895	3,158,782	228,129,636
Debts	1,249,936	4,017,170	1,911,518	4,827,746	3,912,469	537,209	16,456,048
Debentures	68,852	1,642,335	1,550,322	9,021,561	18,326,885	4,193,841	34,803,796
Other financial liabilities	4,173	8,329,950	25,790	99,180	376,104	743,265	9,578,462
	₩106,989,722	₩ 28,747,859	₩ 28,530,247	₩ 87,743,333	₩ 33,556,257	₩ 8,598,047	₩294,165,465
Off- balance sheet items							
Commitments ⁶	₩ 97,602,903	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 97,602,903
Financial guarantee contract ⁷	4,021,013	-	-	-	-	-	4,021,013
	₩ 101,623,916	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 101,623,916

¹ The amounts of ₩9,307,958 million and ₩7,127,248 million, which are restricted due from the financial institutions as of December 31, 2016 and 2015, respectively, are excluded.

² Financial assets/liabilities held for trading, financial assets/liabilities designated at fair value through profit or loss and derivatives held for trading are not managed by contractual maturity because they are expected to be traded or redeemed before maturity. Therefore, the carrying amounts of those financial instruments are classified as '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 cash flow 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 restricted for sale, they are shown in the period in which the restriction is expected to expire.

⁵ Deposits that are contractually repayable on demand or on short notice are classified under the 'On demand' category.

⁶ Commitments are included under the 'On demand' category because payments will be made upon request.

⁷ The financial guarantee contracts are included under the 'On demand' category as payments will be made upon request.

The contractual cash flows of derivatives held for cash flow hedging as of December 31, 2016 and 2015, 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
Net cash flow of net settlement derivatives	₩ (283)	₩ (1,078)	₩ (3,088)	₩ (3,141)	₩ -	₩ (7,590)
Cash flow to be received of total settlement derivatives	302	948	245,909	121,152	-	368,311
Cash flow to be paid of total settlement derivatives	(522)	(1,080)	(224,600)	(110,373)	-	(336,575)

(In millions of Korean won)

	2015					
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Net cash flow of net settlement derivatives	₩ (389)	₩ (1,246)	₩ (4,519)	₩ (7,350)	₩ -	₩ (13,504)
Cash flow to be received of total settlement derivatives	252	722	3,849	358,239	-	363,062
Cash flow to be paid of total settlement derivatives	(504)	(1,135)	(4,934)	(336,576)	-	(343,149)

4.4 Market Risk

4.4.1 Overview of Market Risk

Concept

Market risk is the risk of possible losses which arise from changes in market factors; such as, interest rate, stock price, foreign exchange rate and other market factors that affect the fair value or future cash flows of financial instruments; such as, securities and derivatives amongst others. The most significant risks associated with trading positions are interest rate risks, currency risks and also, 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. The Group measures and manages market risk separately for each subsidiary.

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, and market risk management guidelines for trading positions, and interest rate 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.

Kookmin Bank, one of the subsidiaries, establishes market risk management policy, sets position limits, loss limits and VaR limits of each business group and approves newly developed instruments through its Risk Management Council. The Market Risk Management Committee, 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 of Kookmin Bank determines the operational standards of interest and commission, the details of the establishment and prosecution of the Asset Liability Management (ALM) policies and enacts and amends relevant guidelines. The Risk Management Committee and Risk Management Council monitor the establishment and enforcement of ALM risk management policies, and enact and amend ALM risk management guidelines. The interest rate risk limit is set based on the future assets/liabilities position and interest rate volatility estimation reflects the annual work plan. The Financial Planning Department and Risk Management Department measures and monitors the interest risk status and limits on a regular basis. The status and limits of interest rate risks; such as, interest gap, duration gap and interest rate VaR (Value at Risk), 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 the management.

4.4.2 Trading Position

Definition of a trading position

Trading positions subject to market risk management are defined under the Trading Policy and Guideline, and the basic requirements are as follows:

- The trading position is not restricted for sale, is measured daily at fair value, and its significant inherent risks are able to be hedged in the market.
- The criteria for classification as a trading position are clearly defined in the Trading Policy and Guideline, and separately managed by the trading department.
- The trading position is operated in accordance with the documented trading strategy and managed through position limits.
- The operating department or professional dealers have an authority to enforce a deal on the trading position within predetermined limits without pre-approval.
- The trading position is reported periodically to management for the purpose of the Group's risk management

Observation method on market risk arising from trading positions

Subsidiaries of the Group calculate 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.

VaR (Value at Risk)

i. VaR (Value at Risk)

Kookmin Bank, one of the subsidiaries, uses the value-at-risk methodology to measure the market risk of trading positions. Kookmin Bank uses the 10-day VaR, which estimates the maximum amount of loss that could occur in ten days under an historical simulation model which is considered to be a full valuation method. The distributions of portfolio's value changes are estimated based on the data over the previous 250 business days, and ten-day VaR is calculated by subtracting net present market value from the value measured at a 99% confident level of portfolio's value distribution results.

VaR is a commonly used market risk measurement technique. However, the method has some shortcomings. VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movements are, however, not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and magnitude of the actual losses may vary depending on the assumptions made at the time of the calculation. In addition, the time periods used for the model, generally one or ten days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or too long, the VaR results may understate or overstate the potential loss.

A subsidiary which hold trading positions 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. And also, from this year, non-banking

subsidiaries use the same standard method applied to measure regulatory capital for improvement of market risk VaR management utility (improvement of relation with regulatory capital).

ii. Back-Testing

Back-testing is conducted on a daily basis to validate the adequacy of the market risk model. In back-testing, the Group compares both the actual and hypothetical profit and loss with the VaR calculations.

iii. Stress Testing

Stress testing is carried out to analyze the impact of abnormal market situations on the trading and available-for-sale portfolio. It reflects changes in interest rates, stock prices, foreign exchange rates, implied volatilities of derivatives and other risk factors that have significant influence on the value of the portfolio. The Group uses historical scenarios and hypothetical scenarios for the analysis of abnormal market situations. Stress testing is performed at least once every year.

VaR at a 99% confidence level of interest rate, stock price and foreign exchange rate risk for trading positions with a ten-day holding period by a subsidiary as of December 31, 2016 and 2015, are as follows :

Kookmin Bank

(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

Meanwhile, the required equity capital using the standardized method related to the positions which are not measured by VaR or the non-banking subsidiaries as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016	2015
	Interest rate risk	₩ 15,161
Stock price risk	4,816	118
	₩ 19,977	₩ 152

KB Securities Co., Ltd.

(In millions of Korean won)

	2016 ¹			
	Average	Minimum	Maximum	Ending
Interest rate risk	₩ 79,205	₩ 41,116	₩ 312,094	₩ 312,094
Stock price risk	57,816	36,140	199,182	199,182
Foreign exchange rate risk	1,766	471	10,790	10,790
Commodity risk	80	-	125	-
Total VaR	₩ 138,867	₩ 77,727	₩ 522,191	₩ 522,066

¹ Including Hyundai Securities Co., Ltd.(included as a subsidiary in October 2016)

(In millions of Korean won)

	2015 ¹			
	Average	Minimum	Maximum	Ending
Interest rate risk	₩ 34,674	₩ 19,465	₩ 55,744	₩ 51,470
Stock price risk	41,645	26,074	56,798	50,579
Foreign exchange rate risk	560	294	959	720
Commodity risk	83	3	181	181
Total VaR	₩ 76,962	₩ 45,836	₩ 113,682	₩ 102,950

¹ Based on formerly known as KB Investment&Securities Co., Ltd.

KB Life Insurance Co., Ltd.

(In millions of Korean won)

	2016			
	Average	Minimum	Maximum	Ending
Interest rate risk	₩ 1,428	₩ 1,123	₩ 2,440	₩ 1,675
Total VaR	₩ 1,428	₩ 1,123	₩ 2,440	₩ 1,675

(In millions of Korean won)

	2015			
	Average	Minimum	Maximum	Ending
Interest rate risk	₩ 1,984	₩ 1,370	₩ 2,896	₩ 2,474
Total VaR	₩ 1,984	₩ 1,370	₩ 2,896	₩ 2,474

KB Investment Co., Ltd.

(In millions of Korean won)

	2016			
	Average	Minimum	Maximum	Ending
Stock price risk	₩ 2,852	₩ 1,571	₩ 4,516	₩ 4,516
Foreign exchange rate risk	592	357	792	792
Total VaR	₩ 3,444	₩ 1,928	₩ 5,308	₩ 5,308

(In millions of Korean won)

	2015			
	Average	Minimum	Maximum	Ending
Stock price risk	₩ 2,911	₩ 2,291	₩ 3,681	₩ 3,681
Foreign exchange rate risk	190	148	350	350
Total VaR	₩ 3,101	₩ 2,439	₩ 4,031	₩ 4,031

Details of risk factors

i. Interest rate risk

Trading position interest rate risk usually arises from debt securities denominated in Korean won. The Group's trading strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates. The Group manages interest rate risk on trading positions using market value-based tools such as VaR and sensitivity analysis (Price Value of a Basis Point: PVBP).

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.

4.4.3 Non-trading position

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.

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.

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, 2016 and 2015, are as follows :

(In millions of Korean won)

	2016		2015	
Kookmin Bank	₩	75,990	₩	94,500
KB Securities Co., Ltd. ¹		33,346		11,115
KB Kookmin Card Co., Ltd.		43,731		55,304
KB Life Insurance Co., Ltd.		21,510		30,964
KB Savings Bank Co., Ltd.		5,694		7,581
KB Capital Co., Ltd.		4,795		5,798

¹ Measurement as of December 31, 2015, is based on formerly known as KB Investment&Securities Co., Ltd.

4.4.4 Financial Instruments in Foreign Currencies

Details of financial instruments presented in foreign currencies translated into Korean won 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	₩ 2,562,178	₩ 209,264	₩ 353,841	₩ 17,224	₩ 601,317	₩ 343,825	₩ 4,087,649
Financial assets held for trading	1,078,304	123,733	2,927	-	6,275	-	1,211,239
Financial assets designated							
at fair value through profit or loss	458,422	-	-	-	-	-	458,422
Derivatives held for trading	84,938	13	24,616	-	-	90,626	200,193
Derivatives held for hedging	5,917	-	-	-	-	-	5,917
Loans	10,824,626	342,100	895,208	5,799	552,966	180,445	12,801,144
Available-for-sale financial assets	2,214,244	150,510	-	-	35,873	1,033	2,401,660
Held-to-maturity financial assets	1,148,075	-	-	-	-	-	1,148,075
Other financial assets	930,606	245,827	35,981	30,793	176,833	648,089	2,068,129
	₩ 19,307,310	₩ 1,071,447	₩ 1,312,573	₩ 53,816	₩ 1,373,264	₩ 1,264,018	₩ 24,382,428
Financial liabilities							
Financial liabilities designated							
at fair value through profit or loss	₩ 457,766	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 457,766
Derivatives held for trading	105,918	-	129,349	-	-	315,403	550,670
Derivatives held for hedging	63,634	-	-	-	-	-	63,634
Deposits	7,259,601	597,173	457,447	52,710	791,825	399,683	9,558,439
Debts	7,273,597	169,507	83,105	279	85,123	37,491	7,649,102
Debentures	3,830,709	-	-	-	-	-	3,830,709
Other financial liabilities	1,453,669	52,275	534,224	1,429	176,382	294,933	2,512,912
	₩ 20,444,894	₩ 818,955	₩ 1,204,125	₩ 54,418	₩ 1,053,330	₩ 1,047,510	₩ 24,623,232
Off-balance sheet items	₩ 14,570,708	₩ 822	₩ 39,000	₩ -	₩ 131,210	₩ 470,900	₩ 15,212,640

(In millions of Korean won)

	2015						
	USD	JPY	EUR	GBP	CNY	Others	Total
Financial Assets							
Cash and due from							
financial institutions	₩ 2,210,147	₩ 243,840	₩ 123,607	₩ 14,891	₩ 92,005	₩ 215,154	₩ 2,899,644
Financial assets held for trading	75,762	-	2,616	-	-	-	78,378
Financial assets designated							
at fair value through profit or loss	501,978	-	-	-	-	-	501,978
Derivatives held for trading	64,705	87	355	-	-	1,275	66,422
Derivatives held for hedging	8,610	-	-	-	-	-	8,610
Loans	12,875,006	507,615	458,483	19,365	4,329	136,560	14,001,358
Available-for-sale financial assets	1,564,355	60,591	-	-	-	1,392	1,626,338
Held-to-maturity financial assets	375,040	-	-	-	-	-	375,040
Other financial assets	985,459	182,766	216,546	5,381	192,669	145,225	1,728,046
	₩ 18,661,062	₩ 994,899	₩ 801,607	₩ 39,637	₩ 289,003	₩ 499,606	₩ 21,285,814
Financial liabilities							
Financial liabilities designated							
at fair value through profit or loss	₩ 658,010	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 658,010
Derivatives held for trading	92,435	-	2,527	-	-	12,597	107,559
Derivatives held for hedging	21,461	-	-	-	-	-	21,461
Deposits	6,397,515	510,174	387,112	22,662	58,802	376,870	7,753,135
Debts	6,650,235	217,887	143,060	7,916	4,511	110,536	7,134,145
Debentures	3,869,711	-	106,284	-	-	157,337	4,133,332
Other financial liabilities	1,701,766	98,431	160,867	10,454	185,653	26,646	2,183,817
	₩ 19,391,133	₩ 826,492	₩ 799,850	₩ 41,032	₩ 248,966	₩ 683,986	₩ 21,991,459
Off-balance sheet items	₩ 15,548,595	₩ 17,086	₩ 49,053	₩ -	₩ 13,957	₩ 311,287	₩ 15,939,978

4.5 Operational Risk

4.5.1 Concept

The Group defines operational risk broadly to include all financial and non-financial risks that may arise from operating activities and could cause a negative effect on capital.

4.5.2 Risk Management

The purpose of operational risk management is not only to comply with supervisory and regulatory requirements but also to promote a risk management culture, strengthen internal controls, innovate processes and provide timely feedback to management and employees. In addition, Kookmin Bank established Business Continuity Plans (BCP) to ensure critical business functions can be maintained, or restored, in the event of material disruptions arising from internal or external events. It has constructed replacement facilities as well as has carried out exercise drills for head office and IT departments to test its BCPs.

4.6. Capital Adequacy

The Group complies with the capital adequacy standard established by the Financial Services Commission. The capital adequacy standard is based on Basel III published by Basel Committee on Banking Supervision in Bank of International Settlements in June 2011, and was implemented in Korea in December 2013. The Group is required to maintain a minimum Common Equity Tier 1 ratio of at least 5.375%(2015: 4.5%), a minimum Tier 1 ratio of 6.875%(2015: 6.0%) and a minimum Total Regulatory Capital of 8.875%(2015: 8.0%) as of December 31, 2016.

The Group's equity capital is classified into three categories in accordance with the Supervisory Regulations and Detailed Supervisory Regulations on Financial Holding Companies:

- Common Equity Tier 1 Capital: Common equity Tier 1 Capital represents the issued capital that takes the first and proportionately greatest share of any losses and represents the most subordinated claim in liquidation of the Group, and not repaid outside of liquidation. It includes common shares issued, capital surplus, retained earnings, non-controlling interests of consolidated subsidiaries, accumulated other comprehensive income, other capital surplus and others.
- Additional Tier 1 Capital: Additional Tier 1 Capital includes (i) perpetual instruments issued by the Group that meet the criteria for inclusion in Additional Tier 1 capital, and (ii) stock surplus resulting from the issue of instruments included in Additional Tier 1 capital and others.
- Tier 2 Capital: Tier 2 Capital represents the capital that takes the proportionate share of losses in the liquidation of the Group. Tier 2 Capital includes a fund raised by issuing subordinated debentures maturing in not less than five years that meet the criteria for inclusion in Additional Tier 2 capital, and the allowance for loan losses which are accumulated for assets classified as normal or precautionary as a result of classification of asset soundness in accordance with Regulation on Supervision of Financial Holding Companies and others.

Risk weighted asset means the inherent risks in the total assets held by the Group. The Group calculates risk weighted asset by each risk (credit risk, market risk, and operational risk) based on the Supervisory Regulations and Detailed Supervisory Regulations on Financial Holding Companies and uses it for BIS ratio calculation.

The Group assesses and monitors 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.

Internal Capital is the amount of capital to prevent the inability of payment due to unexpected loss in the future. The Group measures, allocates and monitors internal capital by risk type and subsidiaries.

The Risk Management Council of the Group determines the Group's risk appetite and allocates internal capital by risk type and subsidiary. Each subsidiary efficiently operates its capital within a range of allocated internal capital. The Risk Management Department of the Group monitors 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 due to new business or business expansion.

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 :	₩	31,103,291	₩	29,140,025
Tier 1 Capital		29,264,494		25,585,979
Common Equity Tier 1 Capital		29,013,954		25,351,910
Additional Tier 1 Capital		250,540		234,069
Tier 2 Capital		1,838,797		3,554,046
Risk-weighted assets:		203,649,442		188,212,825
Equity Capital (%) :		15.27		15.48
Tier 1 Capital (%)		14.37		13.59
Common Equity Tier 1 Capital (%)		14.25		13.47

5. Segment Information

5.1 Overall Segment Information and Business Segments

The Group classifies reporting segments based on the nature of the products and services provided, the type of customer, and the Group's management organization.

Banking Business	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 Banking Services	The activities within this segment include trading activities in securities and derivatives, funding and other supporting activities.
Credit Card Business		The activities within this segment include credit sale, cash service, card loan and other supporting activities.
Investment & Securities Business		The activities within this segment include investment banking, brokerage services and other supporting activities.
Life Insurance Business		The activities within this segment include life insurance and other supporting activities.

Financial information by business segment for the year ended December 31, 2016, is as follows:

(In millions of Korean won)

	Banking business				Credit Card	Investment & Securities	Life Insurance	Others	Intra-group Adjustments	Total
	Corporate Banking	Retail Banking	Other Banking Services	Sub-total						
Operating revenues from external customers	₩ 1,803,204	₩ 2,248,035	₩ 1,402,861	₩ 5,454,100	₩ 1,269,573	₩ 184,856	₩ 139,847	₩ 396,566	₩ -	₩ 7,444,942
Intra-segment operating revenues(expenses)	9,274	-	249,235	258,509	(261,747)	3,268	(26,528)	159,944	(133,446)	-
	₩ 1,812,478	₩ 2,248,035	₩ 1,652,096	₩ 5,712,609	₩ 1,007,826	₩ 188,124	₩ 113,319	₩ 556,510	₩ (133,446)	₩ 7,444,942
Net interest income	2,286,347	2,353,232	189,331	4,828,910	981,342	73,205	233,742	283,158	2,172	6,402,529
Interest income	3,297,791	3,740,601	855,764	7,894,156	1,261,787	142,960	233,764	501,675	(12,460)	10,021,882
Interest expense	(1,011,444)	(1,387,369)	(666,433)	(3,065,246)	(280,445)	(69,755)	(22)	(218,517)	14,632	(3,619,353)
Net fee and commission income	231,182	504,259	352,410	1,087,851	92,070	193,384	(927)	212,723	(209)	1,584,892
Fee and commission income	293,336	583,048	433,998	1,310,382	1,658,034	220,938	85	252,031	(290,593)	3,150,877
Fee and commission expense	(62,154)	(78,789)	(81,588)	(222,531)	(1,565,964)	(27,554)	(1,012)	(39,308)	290,384	(1,565,985)
Net gains (losses) on financial assets/liabilities at fair value through profit or loss	(1,166)	-	198,064	196,898	-	(212,522)	8,154	7,851	(9,149)	(8,768)
Net other operating income (expense)	(703,885)	(609,456)	912,291	(401,050)	(65,586)	134,057	(127,650)	52,778	(126,260)	(533,711)
General and administrative expenses	(950,038)	(2,102,384)	(1,216,527)	(4,268,949)	(348,121)	(316,958)	(94,753)	(266,124)	66,194	(5,228,711)
Operating profit before provision for credit losses	862,440	145,651	435,569	1,443,660	659,705	(128,834)	18,566	290,386	(67,252)	2,216,231
Provision (reversal) for credit losses	(278,277)	(2,615)	26,563	(254,329)	(249,809)	9,083	(1,663)	(42,893)	328	(539,283)
Net operating income	584,163	143,036	462,132	1,189,331	409,896	(119,751)	16,903	247,493	(66,924)	1,676,948
Share of profit of associates	-	-	17,615	17,615	(20)	106,423	-	156,820	-	280,838
Net other non-operating income (expense) ¹	(1,300)	-	50,611	49,311	2,262	634,863	(148)	(440)	(14,979)	670,869
Segment profits before income tax	582,863	143,036	530,358	1,256,257	412,138	621,535	16,755	403,873	(81,903)	2,628,655
Income tax expense	(140,910)	(34,614)	(116,477)	(292,001)	(95,035)	20,765	(4,041)	(66,262)	(1,901)	(438,475)
Profit for the year	441,953	108,422	413,881	964,256	317,103	642,300	12,714	337,611	(83,804)	2,190,180
Profit attributable to shareholders of the parent company	441,953	108,422	413,881	964,256	317,103	642,300	12,714	291,175	(83,804)	2,143,744
Profit attributable to non-controlling interests	-	-	-	-	-	-	-	46,436	-	46,436
Total assets ²	109,500,342	122,806,490	74,759,538	307,066,370	15,772,036	32,382,795	8,887,413	36,646,767	(25,081,725)	375,673,656
Total liabilities ²	91,685,643	140,082,958	51,972,767	283,741,368	11,807,038	28,198,439	8,337,849	12,468,290	(140,731)	344,412,253

(In millions of Korean won)

	Banking business				Credit Card	Investment & Securities	Life Insurance	Others	Intra-group Adjustments	Total
	Corporate Banking	Retail Banking	Other Banking Services	Sub-total						
Operating revenues from external customers	₩ 1,667,927	₩ 2,115,837	₩ 1,614,790	₩ 5,398,554	₩ 1,310,628	₩ 184,880	₩ 142,885	₩ 345,002	₩ -	₩ 7,381,949
Intra-segment operating revenues(expenses)	51,466	-	283,402	334,868	(257,745)	2,758	(34,943)	148,101	(193,039)	-
	₩ 1,719,393	₩ 2,115,837	₩ 1,898,192	₩ 5,733,422	₩ 1,052,883	₩ 187,638	₩ 107,942	₩ 493,103	₩ (193,039)	₩ 7,381,949
Net interest income	2,320,217	2,102,326	289,204	4,711,747	979,928	24,260	236,027	250,499	738	6,203,199
Interest income	3,513,603	3,858,102	1,016,677	8,388,382	1,305,800	49,630	236,032	413,746	(17,767)	10,375,823
Interest expense	(1,193,386)	(1,755,776)	(727,473)	(3,676,635)	(325,872)	(25,370)	(5)	(163,247)	18,505	(4,172,624)
Net fee and commission income	232,708	569,832	353,833	1,156,373	108,865	97,996	162	168,928	2,659	1,534,983
Fee and commission income	296,498	671,184	404,372	1,372,054	1,582,903	105,900	162	197,109	(287,033)	2,971,095
Fee and commission expense	(63,790)	(101,352)	(50,539)	(215,681)	(1,474,038)	(7,904)	-	(28,181)	289,692	(1,436,112)
Net gains (losses) on financial assets/liabilities at fair value through profit or loss	37	-	286,991	287,028	-	51,184	8,321	14,852	(1,658)	359,727
Net other operating income (expense)	(833,569)	(556,321)	968,164	(421,726)	(35,910)	14,198	(136,568)	58,824	(194,778)	(715,960)
General and administrative expenses	(847,029)	(2,004,800)	(959,992)	(3,811,821)	(332,700)	(119,496)	(79,074)	(227,446)	46,953	(4,523,584)
Operating profit before provision for credit losses	872,364	111,037	938,200	1,921,601	720,183	68,142	28,868	265,657	(146,086)	2,858,365
Provision (reversal) for credit losses	(715,926)	(80,213)	54,519	(741,620)	(245,790)	(4,992)	(10,159)	(34,507)	(163)	(1,037,231)
Net operating income(expense)	156,438	30,824	992,719	1,179,981	474,393	63,150	18,709	231,150	(146,249)	1,821,134
Share of profit of associates	-	-	7,812	7,812	-	93	-	195,192	-	203,097
Net other non-operating income (expense)	1,317	-	192,119	193,436	(12,141)	(614)	(208)	(35,286)	(4,723)	140,464
Segment profits before income tax	157,755	30,824	1,192,650	1,381,229	462,252	62,629	18,501	391,056	(150,972)	2,164,695
Income tax expense	(38,973)	(7,460)	(227,558)	(273,991)	(107,232)	(15,511)	(7,938)	(37,452)	4,735	(437,389)
Profit(loss) for the year	118,782	23,364	965,092	1,107,238	355,020	47,118	10,563	353,604	(146,237)	1,727,306
Profit(loss) attributable to shareholders of the parent company	118,782	23,364	965,092	1,107,238	355,020	47,118	10,563	324,616	(146,237)	1,698,318
Profit attributable to non-controlling interests	-	-	-	-	-	-	-	28,988	-	28,988
Total assets ²	103,042,327	114,849,508	72,386,072	290,277,907	16,141,810	6,118,251	8,516,783	28,527,698	(20,516,982)	329,065,467
Total liabilities ²	89,293,741	130,631,229	47,605,726	267,530,696	12,307,827	5,495,285	7,933,950	7,733,168	(838,181)	300,162,745

¹ Gains on bargain purchase of Hyundai Securities Co., Ltd., ₩628,614 million, are recorded in net other operating income(expense) of Investment & Securities business.

² Assets and liabilities of the reporting segments are amounts before intra-segment transaction adjustment.

5.2 Services and Geographical Segments

5.2.1 Services information

Operating revenues from external customers for each service for the year ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
Banking service	₩	5,454,100	₩	5,398,554
Credit card service		1,269,573		1,310,628
Investment & Securities service		184,856		184,880
Life insurance service		139,847		142,885
Other service		396,566		345,002
	₩	7,444,942	₩	7,381,949

5.2.2 Geographical information

Geographical operating revenues from external customers for the year 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	₩	7,354,698	₩	4,952,552	₩	7,305,697	₩	3,821,634
United States		10,522		299		11,847		276
New Zealand		5,422		128		5,143		209
China		47,360		5,038		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		-		72,971		-		134,692
	₩	7,444,942	₩	5,034,595	₩	7,381,949	₩	3,966,026

6. Financial Assets and Financial Liabilities

6.1 Classification and Fair Value of Financial Instruments

Carrying amount and fair value 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	₩ 17,884,863	₩ 17,878,714	₩ 16,316,066	₩ 16,316,953
Financial assets held for trading	26,099,518	26,099,518	10,035,096	10,035,096
Debt securities	22,986,570	22,986,570	9,324,143	9,324,143
Equity securities	3,040,599	3,040,599	641,893	641,893
Others	72,349	72,349	69,060	69,060
Financial assets designated at fair value through profit or loss	1,758,846	1,758,846	1,138,968	1,138,968
Debt securities	331,664	331,664	145,542	145,542
Equity securities	65,591	65,591	195,536	195,536
Derivative-linked securities	1,361,591	1,361,591	797,890	797,890
Derivatives held for trading	3,298,328	3,298,328	2,165,971	2,165,971
Derivatives held for hedging	83,607	83,607	112,141	112,141
Loans	265,486,134	265,144,250	245,005,370	245,244,958
Available-for-sale financial assets	33,970,293	33,970,293	24,987,231	24,987,231
Debt securities	27,445,752	27,445,752	21,610,663	21,610,663
Equity securities	6,524,541	6,524,541	3,376,568	3,376,568
Held-to-maturity financial assets	11,177,504	11,400,616	14,149,528	14,505,959
Other financial assets	7,322,335	7,322,335	7,907,940	7,907,940
	₩ 367,081,428	₩ 366,956,507	₩ 321,818,311	₩ 322,415,217
Financial liabilities				
Financial liabilities held for trading	₩ 1,143,510	₩ 1,143,510	₩ 586,923	₩ 586,923
Financial liabilities designated at fair value through profit or loss	10,979,326	10,979,326	2,387,681	2,387,681
Derivatives held for trading	3,717,819	3,717,819	2,282,794	2,282,794
Derivatives held for hedging	89,309	89,309	42,962	42,962
Deposits	239,729,695	240,223,353	224,268,185	224,949,129
Debts	26,251,486	26,247,768	16,240,743	16,297,523
Debentures	34,992,057	35,443,751	32,600,603	33,274,914
Other financial liabilities	16,286,578	16,257,142	12,278,613	12,255,921
	₩ 333,189,780	₩ 334,101,978	₩ 290,688,504	₩ 292,077,847

The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. For each class of financial assets and financial liabilities, the Group discloses the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount at the end of each reporting period. The best evidence of fair value of financial instruments is a quoted price in an active market.

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 a 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 external professional valuation institution where quoted prices are not available. The institutions use one or more of the following valuation techniques including DCF Model, Free Cash Flow to Equity Model, Comparable Company Analysis, Dividend Discount Model, Risk Adjusted Discount Rate Method, and Net Asset Value Method.
Loans	DCF model is used to determine the fair value of loans. Fair value is determined by discounting the expected cash flows, which are contractual cash flows adjusted by the expected prepayment rate, at appropriate discount rate.
Derivatives and Financial assets at fair value through profit or loss	For exchange traded derivatives, quoted price in an active market is used to determine fair value and for OTC derivatives, fair value is determined using valuation techniques. The Group uses internally developed valuation models that are widely used by market participants to determine fair values of plain vanilla OTC derivatives including options, interest rate swaps, and currency swaps, based on observable market parameters. However, some complex financial instruments are valued using appropriate models developed from generally accepted market valuation models including the Finite Difference Method, the Monte Carlo Simulation, Black-Scholes Model, Hull and White Model, Closed Form and Tree Model or valuation results from independent external professional valuation institution.
Deposits	Carrying amount of demand deposits is regarded as representative of fair value because they do not have a fixed maturity and are payable on demand. Fair value of time deposits is determined using a DCF model. Fair value is determined by discounting the expected cash flows, which are contractual cash flows adjusted by the expected prepayment rate, at an appropriate discount rate.
Debts	Carrying amount of overdraft in foreign currency is regarded as representative of fair value because they do not have a fixed maturity and are payable on demand. Fair value of other debts is determined using a DCF model discounting contractual future cash flows at an appropriate discount rate.
Debentures	Fair value is determined by using the valuations of external professional valuation institution, which are calculated using market inputs.
Other financial assets and 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 fair value of the financial instruments into the three-level hierarchy as follows:

Level 1: The fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: The fair values are based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: The fair values are based on unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

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:

(In millions of Korean won)

	2016							
	Fair value hierarchy						Total	
	Level 1		Level 2		Level 3			
Financial assets								
Financial assets held for trading								
Debt securities	₩	7,426,480	₩	15,560,090	₩	-	₩	22,986,570
Equity securities		1,137,531		1,903,068		-		3,040,599
Others		72,349		-		-		72,349
		8,636,360		17,463,158		-		26,099,518
Financial assets designated at fair value through profit or loss								
Debt securities		-		237,595		94,069		331,664
Equity securities		-		-		65,591		65,591
Derivative-linked securities		-		757,979		603,612		1,361,591
		-		995,574		763,272		1,758,846
Derivatives held for trading		128,236		3,033,156		136,936		3,298,328
Derivatives held for hedging		-		82,144		1,463		83,607
Available-for-sale financial assets ¹								
Debt securities		10,456,882		16,978,619		10,251		27,445,752
Equity securities		1,112,502		2,349,998		3,062,041		6,524,541
		11,569,384		19,328,617		3,072,292		33,970,293
	₩	20,333,980	₩	40,902,649	₩	3,973,963	₩	65,210,592
Financial liabilities								
Financial liabilities held for trading	₩	1,143,510	₩	-	₩	-	₩	1,143,510
Financial liabilities designated at fair value through profit or loss		566		3,181,621		7,797,139		10,979,326
Derivatives held for trading		474,921		3,041,052		201,846		3,717,819
Derivatives held for hedging		-		89,123		186		89,309
	₩	1,618,997	₩	6,311,796	₩	7,999,171	₩	15,929,964

(In millions of Korean won)

	2015						
	Fair value hierarchy						Total
	Level 1		Level 2		Level 3		
Financial assets							
Financial assets held for trading							
Debt securities	₩	3,374,271	₩	5,949,872	₩	-	₩ 9,324,143
Equity securities		302,207		339,686		-	641,893
Others		69,060		-		-	69,060
		3,745,538		6,289,558		-	10,035,096
Financial assets designated at fair value through profit or loss							
Debt securities		-		145,542		-	145,542
Equity securities		-		195,536		-	195,536
Derivative-linked securities		-		411,052		386,838	797,890
		-		752,130		386,838	1,138,968
Derivatives held for trading		1,688		2,120,097		44,186	2,165,971
Derivatives held for hedging		-		110,930		1,211	112,141
Available-for-sale financial assets ¹							
Debt securities		6,148,688		15,461,551		424	21,610,663
Equity securities		869,451		619,102		1,888,015	3,376,568
		7,018,139		16,080,653		1,888,439	24,987,231
	₩	10,765,365	₩	25,353,368	₩	2,320,674	₩ 38,439,407
Financial liabilities							
Financial liabilities held for trading	₩	586,923	₩	-	₩	-	₩ 586,923
Financial liabilities designated at fair value through profit or loss		-		568,302		1,819,379	2,387,681
Derivatives held for trading		15,139		2,134,427		133,228	2,282,794
Derivatives held for hedging		-		42,465		497	42,962
	₩	602,062	₩	2,745,194	₩	1,953,104	₩ 5,300,360

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 ₩223,398 million and ₩121,683 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, 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 sell these instruments in the near future.

Valuation techniques and the inputs used in the fair value measurement classified as Level 2

Financial assets and liabilities measured at fair value classified as Level 2 in the statements of financial position as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	Fair value		Valuation techniques	Inputs
	2016	2015		
Financial assets				
Financial assets held for trading				
Debt securities	₩ 15,560,090	₩ 5,949,872	DCF Model	Discount rate
Equity securities	1,903,068	339,686	DCF Model, Net Asset Value	Discount rate, Fair value of underlying asset
	17,463,158	6,289,558		
Financial assets designated at fair value through profit or loss				
Debt securities	237,595	145,542	DCF Model, Hull and White Model	Discount rate
Equity securities	-	195,536	DCF Model	Discount rate
Derivative-linked securities	757,979	411,052	DCF Model, Closed Form, Monte Carlo imulation	Discount rate, Volatility of underlying asset
	995,574	752,130		
Derivatives held for trading	3,033,156	2,120,097	DCF Model, Closed Form, FDM, Monte Carlo Simulation	Discount rate, Volatility, Foreign exchange rate, Stock price and others
Derivatives held for hedging	82,144	110,930	DCF Model, Closed Form, FDM	Discount rate, Volatility, Foreign exchange rate and others
Available-for-sale financial assets				
Debt securities	16,978,619	15,461,551	DCF Model, One Factor Hull and White Model	Discount rate, Interest rate, Volatility of interest rate
Equity securities	2,349,998	619,102	DCF Model, Net Asset Value	Discount rate, Fair value of underlying asset
	19,328,617	16,080,653		
	₩ 40,902,649	₩ 25,353,368		
Financial liabilities				
Financial liabilities designated at fair value through profit or loss				
Derivative-linked securities	₩ 3,181,621	₩ 568,302	DCF Model, Closed Form, Monte Carlo Simulation	Discount rate, Volatility of underlying asset
	3,181,621	568,302		
Derivatives held for trading	3,041,052	2,134,427	DCF Model, Closed Form, FDM, Monte Carlo Simulation	Discount rate, Volatility, Foreign exchange rate and others
Derivatives held for hedging	89,123	42,465	DCF Model, Closed Form, FDM	Discount rate, Volatility, Foreign exchange rate and others
	₩ 6,311,796	₩ 2,745,194		

Fair value hierarchy of financial assets and liabilities whose fair values are disclosed

The fair value hierarchy of financial assets and liabilities whose the fair values are disclosed as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016							
	Fair value hierarchy					Total		
	Level 1	Level 2	Level 3					
Financial assets								
Cash and due from financial institutions ¹	₩	2,625,516	₩	13,390,534	₩	1,862,664	₩	17,878,714
Loans		-		-		265,144,250		265,144,250
Held-to-maturity financial assets		1,505,288		9,895,328		-		11,400,616
Other financial assets ²		-		-		7,322,335		7,322,335
	₩	4,130,804	₩	23,285,862	₩	274,329,249	₩	301,745,915
Financial liabilities								
Deposits ¹	₩	-	₩	116,068,290	₩	124,155,063	₩	240,223,353
Debts ³		-		1,444,983		24,802,785		26,247,768
Debentures		-		33,504,039		1,939,712		35,443,751
Other financial liabilities ⁴		-		-		16,257,142		16,257,142
	₩	-	₩	151,017,312	₩	167,154,702	₩	318,172,014

(In millions of Korean won)

	2015							
	Fair value hierarchy					Total		
	Level 1	Level 2	Level 3					
Financial assets								
Cash and due from financial institutions ¹	₩	2,711,519	₩	11,171,092	₩	2,434,342	₩	16,316,953
Loans		-		-		245,244,958		245,244,958
Held-to-maturity financial assets		1,788,914		12,717,045		-		14,505,959
Other financial assets ²		-		-		7,907,940		7,907,940
	₩	4,500,433	₩	23,888,137	₩	255,587,240	₩	283,975,810
Financial liabilities								
Deposits ¹	₩	-	₩	100,090,671	₩	124,858,458	₩	224,949,129
Debts ³		-		434,634		15,862,889		16,297,523
Debentures		-		32,532,277		742,637		33,274,914
Other financial liabilities ⁴		-		-		12,255,921		12,255,921
	₩	-	₩	133,057,582	₩	153,719,905	₩	286,777,487

¹ The amounts included in Level 2 are the carrying amounts which are reasonable approximations of the fair values.

² Other financial assets of ₩7,322,335 million and ₩7,970,940 million are included in Level 3, the carrying amounts that are reasonable approximations of fair values as of December 31, 2016 and 2015, respectively.

³ Debts of ₩70,624 million and ₩9,884 million included in Level 2 are the carrying amounts which are reasonable approximations of fair values as of December 31, 2016 and 2015, respectively.

⁴ Other financial liabilities of ₩15,890,765 million and ₩11,957,239 million included in Level 3 are the carrying amounts which are reasonable approximations of fair values as of December 31, 2016 and 2015, respectively.

Valuation techniques and the inputs used in the fair value measurement

Financial assets and liabilities whose carrying amount is a reasonable approximation of fair value are not subject to disclose valuation techniques and inputs.

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	₩ 9,895,328	₩ 12,717,045	DCF Model	Discount rate
Financial liabilities				
Debts	1,374,359	424,750	DCF Model	Discount rate
Debentures	33,504,039	32,532,277	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)

	2016			
	Fair value	Valuation technique	Inputs	Unobservable inputs
Financial assets				
Cash and due from financial institutions	₩ 1,862,664	DCF Model	Credit spread, Other spread, Interest rates	Credit spread, Other spread
Loans	265,144,250	DCF Model	Credit spread, Other spread, Prepayment rate, Interest rates	Credit spread, Other spread, Prepayment rate
	₩ 267,006,914			
Financial liabilities				
Deposits	₩ 124,155,063	DCF Model	Other spread, Prepayment rate, Interest rates	Other spread, Prepayment rate
Debts	24,802,785	DCF Model	Other spread, Interest rates	Other spread
Debentures	1,939,712	DCF Model	Other spread, Implied default probability, Interest rates	Other spread, Implied default probability
Other financial liabilities	366,377	DCF Model	Other spread, Interest rates	Other spread
	₩ 151,263,937			

(In millions of Korean won)

	2015				
	Fair value	Valuation technique	Inputs	Unobservable inputs	
Financial assets					
Cash and due from financial institutions	₩ 2,434,342	DCF Model	Credit spread, Other spread, Interest rates	Credit spread, Other spread	
Loans	245,244,958	DCF Model	Credit spread, Other spread, Prepayment rate, Interest rates	Credit spread, Other spread, Prepayment rate	
	₩ 247,679,300				
Financial liabilities					
Deposits	₩ 124,858,458	DCF Model	Other spread, Prepayment rate, Interest rates	Other spread, Prepayment rate	
Debts	15,862,889	DCF Model	Other spread, Interest rates	Other spread	
Debentures	742,637	DCF Model	Other spread, Implied default probability, Interest rates	Other spread, Implied default probability	
Other financial liabilities	298,682	DCF Model	Other spread, Interest rates	Other spread	
	₩ 141,762,666				

6.2 Level 3 of the Fair Value Hierarchy Disclosure

6.2.1 Valuation Policy and Process for Fair Value Measurement Categorized Within Level 3.

The Group uses external, independent and qualified professional valuer's valuation 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

Details of 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	Financial liabilities at fair value through profit or loss		Net derivatives financial instruments				
	Designated at fair value through profit or loss	Available-for-sale financial assets	Designated at fair value through profit or loss	Derivatives held for trading	Derivatives held for hedging					
Beginning balance	₩	386,838	₩	1,888,439	₩	(1,819,379)	₩	(89,042)	₩	714
Total gains or losses										
- Profit or loss		62,717		(12,038)		(382,798)		25,649		676
- Other comprehensive income		-		86,320		-		-		-
Purchases		278,743		744,221		-		33,664		-
Sales		(345,846)		(288,082)		-		(178,670)		-
Issues		-		-		(4,085,714)		(26,049)		-
Settlements		(118,913)		-		4,182,978		282,671		(113)
Transfers into Level 3 ¹		-		-		-		8,815		-
Transfers out of Level 3 ¹		(337,217)		(24,816)		2,388,485		(72,571)		-
Business combination		836,950		678,248		(8,080,711)		(49,377)		-
Ending balance	₩	763,272	₩	3,072,292	₩	(7,797,139)	₩	(64,910)	₩	1,277

(In millions of Korean won)

	2015									
	Financial assets at fair value through profit or loss		Financial investments	Financial liabilities at fair value through profit or loss		Net derivatives financial instruments				
	Designated at fair value through profit or loss	Available-for-sale financial assets	Designated at fair value through profit or loss	Derivatives held for trading	Derivatives held for hedging					
Beginning balance	₩	502,168	₩	1,801,339	₩	(982,426)	₩	41,817	₩	(2,021)
Total gains or losses										
- Profit or loss		(20,642)		122,603		111,684		(82,343)		2,735
- Other comprehensive income		-		(25,788)		-		-		-
Purchases		686,475		526,780		-		3,429		-
Sales		(781,163)		(528,170)		-		(11,764)		-
Issues		-		-		(2,299,289)		(16,345)		-
Settlements		-		-		1,350,652		(23,836)		-
Transfers into Level 3 ¹		-		24,099		-		-		-
Transfers out of Level 3 ¹		-		(32,424)		-		-		-
Ending balance	₩	386,838	₩	1,888,439	₩	(1,819,379)	₩	(89,042)	₩	714

¹The 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 income(loss) from financial investments at fair value through profit or loss	Other operating income(loss)	Net interest income
Total gains or losses included in profit or loss for the period	₩ (294,432)	₩ (11,375)	₩ 13
Total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period	(89,797)	(15,306)	-

(In millions of Korean won)

	2015		
	Net income(loss) from financial investments at fair value through profit or loss	Other operating income(loss)	Net interest income
Total gains or losses included in profit or loss for the period	₩ 8,699	₩ 125,331	₩ 7
Total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period	30,926	(24,143)	7

6.2.3 Sensitivity Analysis of Changes in Unobservable Inputs

Information about fair value measurements using unobservable inputs as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016					
	Fair value	Valuation technique	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						
Debt securities	₩ 94,069	Black-Scholes Model	Price of the underlying asset, Interest rates, Dividend yield	Volatility of the underlying asset	10.51 ~ 27.70	The higher the volatility, the higher the fair value fluctuation
Equity securities	65,591	Black-Scholes Model	Price of the underlying asset, Interest rates, Dividend yield	Volatility of the underlying asset	10.51 ~ 30.97	The higher the volatility, the higher the fair value fluctuation

	2016					
	Fair value	Valuation technique	Inputs	Unobservable inputs	Range of unobservable inputs(%)	Relationship of unobservable inputs to fair value
Derivative-linked securities	603,612	DCF Model, Closed Form, FDM, Monte Carlo Simulation, Hull and White Model ,Black-Scholes Model	Price of the underlying asset, Interest rates, Dividend yield, Volatility of the underlying asset, Correlation between underlying asset, Discount rate, Loss given default, Volatility of the interest rate	Volatility of the underlying asset	15.00 ~ 49.00	The higher the volatility, the higher the fair value fluctuation
				Correlation between underlying asset	4.00 ~ 73.07	The higher the correlation, the higher the fair value fluctuation
Derivatives held for trading						
Stock and index	124,888	DCF Model, Closed Form, Monte Carlo Simulation, Hull and White Model, Black-Scholes Model, Tree Model	Price of the underlying asset, Interest rates, Dividend yield, Volatility of the underlying asset, Correlation between underlying asset	Volatility of the underlying asset	5.60 ~ 55.00	The higher the volatility, the higher the fair value fluctuation
				Correlation between underlying asset	4.00 ~ 69.00	The higher the correlation, the higher the fair value fluctuation
Currency, interest rate and others	12,048	DCF Model, Hull and White Model, Closed Form, Monte Carlo Simulation, Tree Mode	Interest rates, Foreign exchange rate, Loss given default, Stock price, Volatility of the stock price, Volatility of the interest rate, Price of the underlying asset, Volatility of the underlying asset, Correlation between underlying asset, Discount rate, Dividend yield,	Loss given default	0.80 ~ 0.84	The higher the loss given default, the lower the fair value
				Volatility of the stock price	14.82 ~ 30.97	The higher the volatility, the higher the fair value fluctuation
				Volatility of the interest rate	0.57	The higher the volatility, the higher the fair value fluctuation
				Volatility of the underlying asset	18.00 ~ 59.00	The higher the volatility, the higher the fair value fluctuation
				Correlation between underlying asset	-5.00 ~ 47.00	The higher the correlation, the higher the fair value fluctuation
Derivatives held for hedging						
Interest rate	1,463	DCF Model, Closed Form, FDM, Monte Carlo Simulation, Tree Model	Price of the underlying asset, Interest rates, Volatility of the underlying asset	Volatility of the underlying asset	5.04	The higher the volatility, the higher the fair value fluctuation
Available-for-sale financial assets						
Debt securities	10,251	DCF Model	Discount rate	Discount rate	6.55	The lower the discount rate, the higher the fair value

	2016					
	Fair value	Valuation technique	Inputs	Unobservable inputs	Range of unobservable inputs(%)	Relationship of unobservable inputs to fair value
Equity securities	3,062,041	DCF Model, Comparable Company Analysis, Adjusted discount rate method, Net asset value method, Dividend discount model, Hull and White model, Discounted cash flows to equity, Income approach	Growth rate, Discount rate, Dividend yield, Volatility of the interest rate, Liquidation value, Recovery rate of receivables' acquisition cost	Growth rate	0.00 ~ 1.00	The higher the growth rate, the higher the fair value
				Discount rate	1.49 ~ 22.01	The lower the discount rate, the higher the fair value
				Liquidation value	0.00	The higher the liquidation value, the higher the fair value
				Recovery rate of receivables' acquisition cost	155.83	The higher the recovery rate of receivables' acquisition cost, the higher the fair value
	₩ 3,973,963					
Financial liabilities						
Financial liabilities designated at fair value through profit or loss						
Derivative-linked securities	₩ 7,797,139	DCF Model, Closed Form, FDM, Monte Carlo Simulation, Hull and White Model, Black Scholes-Model	Price of the underlying asset, Interest rates, Dividend yield, Volatility of the underlying asset, Correlation between underlying asset	Volatility of the underlying asset	1.00 ~ 49.00	The higher the volatility, the higher the fair value fluctuation
				Correlation between underlying asset	-5.00 ~ 77.00	The higher the correlation, the higher the fair value fluctuation
Derivatives held for trading						
Stock and index	153,419	DCF Model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, Interest rates, Volatility of the underlying asset, Correlation between underlying asset, Dividend yield	Volatility of the underlying asset	17.00 ~ 43.00	The higher the volatility, the higher the fair value fluctuation
				Correlation between underlying asset	4.00 ~ 59.00	The higher the correlation, the higher the fair value fluctuation
Others	48,427	DCF Model, Closed Form, Monte Carlo Simulation, Hull and White Model, Tree Model	Stock price, Interest rates, Volatility of the stock price, Volatility of the interest rate, Volatility of the underlying asset, Correlation between underlying asset, Dividend yield, Discount rate	Volatility of the stock price	14.82	The higher the volatility, the higher the fair value fluctuation
				Volatility of the interest rate	0.57 ~ 37.15	The higher the volatility, the higher the fair value fluctuation
				Discount rate	2.09	The lower the discount rate, the higher the fair value
				Volatility of the underlying asset	18.00 ~ 30.15	The higher the volatility, the higher the fair value fluctuation
				Correlation between underlying asset	-5.00 ~ 47.00	The higher the correlation, the higher the fair value fluctuation

	2016					
	Fair value	Valuation technique	Inputs	Unobservable inputs	Range of unobservable inputs(%)	Relationship of unobservable inputs to fair value
Derivatives held for hedging						
Interest rate	186	DCF Model, Closed Form, FDM, Monte Carlo Simulation, Tree Model	Price of the underlying asset, Interest rates, Volatility of the underlying asset	Volatility of the underlying asset	2.74	The higher the volatility, the higher the fair value fluctuation
	₩ 7,999,171					
(In millions of Korean won)						
	2015					
	Fair value	Valuation technique	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	₩ 386,838	Monte Carlo Simulation, Closed Form, Hull and White Model, Black-Scholes Model, Gaussian 1 factor model	Price of the underlying asset, Interest rates, Dividend yield, Volatility of the underlying asset, Correlation between underlying asset	Volatility of the underlying asset Correlation between underlying asset	0.65~70.06 -14.20~89.98	The higher the volatility, the higher the fair value fluctuation The higher the correlation, the higher the fair value fluctuation
Derivatives held for trading						
Stock and index	43,948	DCF Model, Closed Form, Monte Carlo Simulation, Tree Model, Black-Scholes Model	Price of the underlying asset, Interest rates, Dividend yield, Volatility of the underlying asset, Correlation between underlying asset	Volatility of the underlying asset Correlation between underlying asset	5.60~49.65 6.80~51.07	The higher the volatility, the higher the fair value fluctuation The higher the correlation, the higher the fair value fluctuation
Currency, interest rate and others	238	DCF Model, Hull and White Model, Closed Form, Monte Carlo Simulation	Interest rates, Foreign exchange rate, Loss given default, Stock price, Volatility of stock price, Price of the underlying asset, Volatility of underlying asset, Correlation between underlying asset	Loss given default Volatility of the stock price Volatility of the interest rate Volatility of underlying asset Correlation between underlying asset	5.56~100.00 40.02 0.45 13.80~46.56 3.42~89.98	The higher the loss given default, the lower the fair value The higher the volatility, the higher the fair value fluctuation The higher the volatility, the higher the fair value fluctuation The higher the volatility, the higher the fair value fluctuation The higher the correlation, the higher the fair value fluctuation

(In millions of Korean won)

2015						
	Fair value	Valuation technique	Inputs	Unobservable inputs	Range of unobservable inputs(%)	Relationship of unobservable inputs to fair value
Derivatives held for hedging						
Interest rate	1,211	DCF Model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, Interest rates, Volatility of the underlying asset	Volatility of the underlying asset	5.96	The higher the volatility, the higher the fair value fluctuation
Available-for-sale financial assets						
Debt securities	424	DCF Model	Discount rate	Discount rate	6.05	The lower the discount rate, the higher the fair value
Equity securities	1,888,015	DCF Model, Comparable Company Analysis, Adjusted discount rate method, Net asset value method, Dividend discount model, Hull and White model, Discounted cash flows to equity	Growth rate, Discount rate, Volatility of the interest rate, Liquidation value, Recovery rate of receivables' acquisition cost	Growth rate	0.00~3.00	The higher the growth rate, the higher the fair value
				Discount rate	1.72~20.65	The lower the discount rate, the higher the fair value
				Volatility of the interest rate	24.90~27.20	The higher the volatility, the higher the fair value fluctuation
				Liquidation value	0.00	The higher the liquidation value, the higher the fair value
				Recovery rate of receivables' acquisition cost	155.83	The higher the recovery rate of receivables' acquisition cost, the higher the fair value
	₩ 2,320,674					
Financial liabilities						
Financial liabilities designated at fair value through profit or loss						
Derivative-linked securities	₩ 1,819,379	Closed Form, Monte Carlo Simulation, Hull and White model, Black-Scholes model, Gaussian 1 factor model	Price of the underlying asset, Interest rates, Dividend yield, Volatility of the underlying asset, Correlation between underlying asset	Volatility of the underlying asset	0.65~70.06	The higher the volatility, the higher the fair value fluctuation
				Correlation between underlying asset	-14.20~89.98	The higher the correlation, the higher the fair value fluctuation
Derivatives held for trading						
Stock and index	124,379	DCF Model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, Interest rates, Volatility of the underlying asset, Correlation between underlying asset, Dividend yield	Volatility of the underlying asset	15.68~70.06	The higher the volatility, the higher the fair value fluctuation
				Correlation between underlying asset	11.96~51.07	The higher the correlation, the higher the fair value fluctuation

	2015					
	Fair value	Valuation technique	Inputs	Unobservable inputs	Range of unobservable inputs(%)	Relationship of unobservable inputs to fair value
Others	8,849	DCF Model, Closed Form, Monte Carlo Simulation, Hull and White model	Stock price, Interest rates, Volatility of the stock price, Volatility of the underlying assets, Correlation between underlying asset, Dividend yield	Volatility of the stock price	40.02	The higher the volatility, the higher the fair value fluctuation
				Volatility of the interest rate	0.45~27.20	The higher the volatility, the higher the fair value fluctuation
				Volatility of underlying asset	13.80~46.56	The higher the volatility, the higher the fair value fluctuation
				Correlation between underlying asset	3.42~89.98	The higher the correlation, the higher the fair value fluctuation
Derivatives held for hedging						
Interest rate	497	DCF Model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, Interest rates, Volatility of the underlying asset	Volatility of the underlying asset	3.93	The higher the volatility, the higher the fair value fluctuation
₩ 1,953,104						

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 the 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 most unfavorable. Level 3 financial instruments subject to sensitivity analysis are equity-related derivatives, currency-related derivatives and interest rate-related derivatives whose fair value changes are recognized in profit or loss as well as debt securities and unlisted equity securities (including private equity funds) whose fair value changes are recognized in profit or loss or other comprehensive income.

The results of the sensitivity analysis from changes in inputs are as follows:

(In millions of Korean won)

	2016			
	Recognition in profit or loss		Other comprehensive income	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Financial assets				
Financial assets designated at fair value through profit or loss ¹				
Debt securities	₩ 1,029	₩ (866)	₩ -	₩ -
Equity securities	840	(521)	-	-
Derivative-linked securities	5,666	(5,463)	-	-
Derivatives held for trading ²	28,334	(29,486)	-	-
Derivatives held for hedging ²	9	(6)	-	-
Available-for-sale financial assets				
Debt securities ³	-	-	69	(45)

(In millions of Korean won)

	2016			
	Recognition in profit or loss		Other comprehensive income	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Equity securities ⁴	-	-	168,225	(87,529)
	₩ 35,878	₩ (36,342)	₩ 168,294	₩ (87,574)
Financial liabilities				
Financial liabilities designated at fair value through profit or loss ¹	₩ 97,429	₩ (97,571)	₩ -	₩ -
Derivatives held for trading ²	31,759	(33,715)	-	-
Derivatives held for hedging ²	3	(3)	-	-
	₩ 129,191	₩ (131,289)	₩ -	₩ -

(In millions of Korean won)

	2015			
	Recognition in profit or loss		Other comprehensive income	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Financial assets				
Financial assets designated at fair value through profit or loss				
Derivative-linked securities ¹	₩ 9,211	₩ (11,642)	₩ -	₩ -
Derivatives held for trading ²	2,800	(3,891)	-	-
Derivatives held for hedging ²	81	(71)	-	-
Available-for-sale financial assets				
Debt securities ³	-	-	20	(19)
Equity securities ⁴	-	-	189,271	(88,066)
	₩ 12,092	₩ (15,604)	₩ 189,291	₩ (88,085)
Financial liabilities				
Financial liabilities designated at fair value through profit or loss ¹	₩ 57,529	₩ (41,499)	₩ -	₩ -
Derivatives held for trading ²	30,011	(43,272)	-	-
Derivatives held for hedging ²	17	(16)	-	-
	₩ 87,557	₩ (84,787)	₩ -	₩ -

¹ For financial assets designated at fair value through profit or loss, the changes in fair value are calculated by shifting principal unobservable input parameters such as Volatility of the underlying asset or Correlation between underlying asset by $\pm 10\%$.

² For stock and index-related derivatives, the changes in fair value are calculated by shifting principal unobservable input parameters such as the correlation of rates of return on stocks and the volatility of the underlying asset by $\pm 10\%$. For currency-related derivatives, the changes in fair value are calculated by shifting the unobservable input parameters, such as the loss given default ratio by $\pm 1\%$. For interest rate-related derivatives, the correlation of the interest rates or the volatility of the underlying asset is shifted by $\pm 10\%$ to calculate the fair value changes.

³ For debt securities, the changes in fair value are calculated by shifting principal unobservable input parameters; such as, discount rate by $\pm 1\%$.

⁴ 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, 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. When 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 for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
Balance at the beginning of the period	₩	4,055	₩	1,376
New transactions and others		37,819		5,400
Changes during the period		(2,841)		(2,721)
Balance at the end of the year	₩	39,033	₩	4,055

6.3 Carrying Amounts of Financial Instruments by Category

Financial assets and liabilities are measured at fair value or amortized cost. Measurement policies for each class of financial assets and liabilities are disclosed in Note 3, 'Significant accounting policies'.

The carrying amounts of financial assets and liabilities by category as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016						
	Financial assets at fair value through profit or loss						Total
	Held for trading	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	
Financial assets							
Cash and due from financial institutions	₩ -	₩ -	₩ 17,884,863	₩ -	₩ -	₩ -	₩17,884,863
Financial assets at fair value through profit or loss	26,099,518	1,758,846	-	-	-	-	27,858,364
Derivatives	3,298,328	-	-	-	-	83,607	3,381,935
Loans	-	-	265,486,134	-	-	-	265,486,134
Financial investments	-	-	-	33,970,293	11,177,504	-	45,147,797
Other financial assets	-	-	7,322,335	-	-	-	7,322,335
	₩ 29,397,846	₩ 1,758,846	₩ 290,693,332	₩ 33,970,293	₩ 11,177,504	₩ 83,607	₩ 367,081,428

(In millions of Korean won)

	2016						
	Financial liabilities at fair value through profit or loss						
	Held for trading	Designated at fair value through profit or loss	Financial liabilities at amortized cost	Derivatives held for hedging	Total		
Financial liabilities							
Financial liabilities at fair value through profit or loss	₩ 1,143,510	₩ 10,979,326	₩ -	₩ -			12,122,836
Derivatives	3,717,819	-	-	89,309			3,807,128
Deposits	-	-	239,729,695	-			239,729,695
Debts	-	-	26,251,486	-			26,251,486
Debentures	-	-	34,992,057	-			34,992,057
Other financial liabilities	-	-	16,286,578	-			16,286,578
	₩ 4,861,329	₩ 10,979,326	₩ 317,259,816	₩ 89,309			₩ 333,189,780

(In millions of Korean won)

	2015						
	Financial assets at fair value through profit or loss						
	Held for trading	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	₩ -	₩ -	₩ 16,316,066	₩ -	₩ -	₩ -	₩ 16,316,066
Financial assets at fair value through profit or loss	10,035,096	1,138,968	-	-	-	-	11,174,064
Derivatives	2,165,971	-	-	-	-	112,141	2,278,112
Loans	-	-	245,005,370	-	-	-	245,005,370
Financial investments	-	-	-	24,987,231	14,149,528	-	39,136,759
Other financial assets	-	-	7,907,940	-	-	-	7,907,940
	₩ 12,201,067	₩ 1,138,968	₩ 269,229,376	₩ 24,987,231	₩ 14,149,528	₩ 112,141	₩ 321,818,311

(In millions of Korean won)

	2015								
	Financial liabilities at fair value through profit or loss				Financial liabilities at amortized cost	Derivatives held for hedging	Total		
	Held for trading	Designated at fair value through profit or loss							
Financial liabilities									
Financial liabilities at fair value through profit or loss	₩	586,923	₩	2,387,681	₩	-	₩	2,974,604	
Derivatives		2,282,794		-		-	42,962	2,325,756	
Deposits		-		-	224,268,185		-	224,268,185	
Debts		-		-	16,240,743		-	16,240,743	
Debentures		-		-	32,600,603		-	32,600,603	
Other financial liabilities		-		-	12,278,613		-	12,278,613	
	₩	2,869,717	₩	2,387,681	₩285,388,144	₩	42,962	₩	290,688,504

6.4 Transfer of Financial Assets

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		
EAK ABS Co., Ltd.	Subordinate debt	Available-for-sale financial assets	₩	7	₩	7
AP ABS First Co., Ltd.	Subordinate debt	Available-for-sale financial assets		1,393		1,393
Discovery ABS First Co., Ltd.	Subordinate debt	Available-for-sale financial assets		6,876		6,876
EAK ABS Second Co., Ltd.	Subordinate debt	Available-for-sale financial assets		12,302		12,302
FK1411 Co., Ltd.	Subordinate debt	Available-for-sale financial assets		15,212		15,212
AP 3B ABS Ltd.	Subordinate 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 ₩4,394 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
EAK ABS Co., Ltd.	Subordinate debt	Available-for-sale financial assets	₩ 48	₩ 48
AP ABS First Co., Ltd.	Subordinate debt	Available-for-sale financial assets	10,335	10,335
Discovery ABS First Co., Ltd.	Subordinate debt	Available-for-sale financial assets	10,448	10,448
EAK ABS Second Co., Ltd.	Subordinate debt	Available-for-sale financial assets	22,359	22,359
FK1411 Co., Ltd.	Subordinate 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 ₩4,181 million as of December 31, 2015.

Transferred financial assets that are not derecognized in their entirety

The Group securitized the loans and issued the asset-backed debentures. The senior debentures and related securitized assets as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016	
	Carrying amount of underlying assets	Carrying amount of senior debentures
KB Kookmin Card Second Securitization Co., Ltd. ¹	₩ 605,958	₩ 361,769
Wise Mobile Eighth Securitization Specialty ²	11,209	-
Wise Mobile Ninth Securitization Specialty ²	6,027	-
Wise Mobile Tenth Securitization Specialty ²	17,485	9,999
Wise Mobile Eleventh Securitization Specialty ²	16,830	9,998
Wise Mobile Twelfth Securitization Specialty ²	27,107	19,995
Wise Mobile Thirteenth Securitization Specialty ²	31,873	24,996
Wise Mobile Fourteenth Securitization Specialty ²	52,583	44,991
Wise Mobile Fifteenth Securitization Specialty ²	68,270	64,983
Wise Mobile Sixteenth Securitization Specialty ²	114,213	109,966
Wise Mobile Seventeenth Securitization Specialty ²	118,767	114,955
Wise Mobile Eighteenth Securitization Specialty ²	97,910	94,950
	₩ 1,168,232	₩ 856,602

(In millions of Korean won)

	2015			
	Carrying amount of underlying assets		Carrying amount of senior debentures	
KB Kookmin Card Second Securitization Co., Ltd. ¹	₩	604,791	₩	350,097
Wise Mobile First Securitization Specialty ²		13,340		-
Wise Mobile Second Securitization Specialty ²		14,225		-
Wise Mobile Third Securitization Specialty ²		25,330		14,000
Wise Mobile Fourth Securitization Specialty ²		15,857		9,999
Wise Mobile Fifth Securitization Specialty ²		41,680		29,996
Wise Mobile Sixth Securitization Specialty ²		61,425		49,991
Wise Mobile Seventh Securitization Specialty ²		69,451		59,987
Wise Mobile Eighth Securitization Specialty ²		70,393		59,984
Wise Mobile Ninth Securitization Specialty ²		55,438		49,983
Wise Mobile Tenth Securitization Specialty ²		86,552		79,971
Wise Mobile Eleventh Securitization Specialty ²		95,652		89,958
Wise Mobile Twelfth Securitization Specialty ²		115,496		109,938
Wise Mobile Thirteenth Securitization Specialty ²		144,636		139,913
Wise Mobile Fourteenth Securitization Specialty ²		204,787		199,855
Wise Mobile Fifteenth Securitization Specialty ²		200,324		199,831
Wise Mobile Sixteenth Securitization Specialty ²		269,526		269,737
Wise Mobile Seventeenth Securitization Specialty ²		273,459		274,693
Wise Mobile Eighteenth Securitization Specialty ²		199,233		199,690
	₩	2,561,595	₩	2,187,623

¹ The Company has an obligation to early redeem the asset-backed debentures upon occurrence of an event specified in the agreement such as when the outstanding balance of the eligible asset-backed securitization (ABS), a trust-type ABS, is below the solvency margin ratio (minimum rate : 104.5%) of the beneficiary interest in the trust. In addition, the Company can entrust additional eligible card transaction accounts and deposits. To avoid such early redemption, the Company entrusts accounts and deposits in addition to the previously entrusted card accounts. Accordingly, as asset-backed debenture holders' recourse is not limited to the underlying assets, the fair value is not disclosed.

² According to the liquidity facility agreement entered between the Special Purpose Companies (SPC) and Woori Bank and NH Bank, if the senior debentures cannot be redeemed by the underlying assets, the senior debentures should be redeemed by borrowings from the liquidity facilities. Accordingly, as senior debenture holders' recourse is not limited to the underlying assets, the fair value is not disclosed.

The Group transferred the shares of Hyundai Elevator Co., Ltd. to Natixis bank for ₩46,364 million and entered into Total Return Swap contract. In accordance with the agreement, if the stock price of the transferred asset changes, the risk is attributed to the Group first. Details of transferred financial assets as of December 31, 2016, are as follows:

(In millions of Korean won)

	2016			
	Carrying amount of transferred assets		Carrying amount of related liabilities	
Available-for-sale financial assets	₩	45,683	₩	46,364
	₩	45,683	₩	46,364

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 repurchase agreement to repurchase the same asset at a fixed price, or loaned under a securities lending agreement to be returned as the same asset. Thus, the Group retains substantially all the risks and rewards of ownership of the financial asset. The amounts of transferred assets and related liabilities as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016	
	Carrying amount of transferred assets	Carrying amount of related liabilities
Repurchase agreements	₩ 9,302,087	₩ 8,815,027
Loaned securities		
Government bond	108,062	-
Stock	552,872	-
Others	16,250	-
	₩ 9,979,271	₩ 8,815,027

(In millions of Korean won)

	2015	
	Carrying amount of transferred assets	Carrying amount of related liabilities
Repurchase agreements	₩ 1,938,091	₩ 1,817,754
Loaned securities		
Government bond	200,389	-
Stock	313	-
Others	20,091	-
	₩ 2,158,884	₩ 1,817,754

6.5 Offsetting Financial Assets and Financial Liabilities

The Group enters into International Swaps and Derivatives Association ("ISDA") master netting agreements and other similar 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 consolidated statement of financial position.

Details of financial assets subject to offsetting, enforceable master netting arrangements or similar agreement as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016					
	Gross assets	Gross liabilities offset	Net amounts presented in the statement of financial position	Non-offsetting amount		Net amount
				Financial instruments	Cash collateral	
Derivatives held for trading	₩ 3,800,978	₩ -	₩ 3,800,978	₩ (2,390,096)	₩ (2,711)	₩ 1,408,171
Derivatives held for hedging	80,718	-	80,718	(10,980)	-	69,738
Receivable spot exchange	2,557,424	-	2,557,424	(2,555,485)	-	1,939
Reverse repurchase agreements	2,926,515	-	2,926,515	(2,926,515)	-	-
Domestic exchange settlement debits	19,854,611	(19,323,418)	531,193	-	-	531,193
Other financial instruments	1,055,379	(829,137)	226,242	(7,222)	-	219,020
	₩ 30,275,625	₩ (20,152,555)	₩ 10,123,070	₩ (7,890,298)	₩ (2,711)	₩ 2,230,061

(In millions of Korean won)

	2015					
	Gross assets	Gross liabilities offset	Net amounts presented in the statement of financial position	Non-offsetting amount		Net amount
				Financial instruments	Cash collateral	
Derivatives held for trading	₩ 2,117,556	₩ -	₩ 2,117,556	₩ (1,611,788)	₩ (22,221)	₩ 483,547
Derivatives held for hedging	111,341	-	111,341	(15,650)	-	95,691
Receivable spot exchange	2,841,945	-	2,841,945	(2,840,480)	-	1,465
Reverse repurchase agreements	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	599,259	(473,983)	125,276	-	-	125,276
	₩ 27,822,781	₩ (18,460,062)	₩ 9,362,719	₩ (6,496,118)	₩ (22,221)	₩ 2,844,380

Details of financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreement as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016					
	Gross liabilities	Gross asset offset	Net amounts presented in the statement of financial position	Non-offsetting amount		Net amount
				Financial instruments	Cash collateral	
Derivatives held for trading	₩ 4,622,729	₩ -	₩ 4,622,729	₩ (3,005,000)	₩ (207,797)	₩ 1,409,932
Derivatives held for hedging	88,506	-	88,506	(22,795)	(11,922)	53,789
Payable spot exchange	2,556,009	-	2,556,009	(2,555,485)	-	524
Repurchase agreements ¹	8,815,027	-	8,815,027	(8,815,027)	-	-
Securities borrowing agreements	1,063,056	-	1,063,056	(1,063,056)	-	-
Domestic exchange settlement credits	20,655,999	(19,323,418)	1,332,581	(1,332,503)	-	78
Other financial instruments	953,137	(829,137)	124,000	(7,252)	-	116,748
	₩ 38,754,463	₩ (20,152,555)	₩ 18,601,908	₩ (16,801,118)	₩ (219,719)	₩ 1,581,071

(In millions of Korean won)

	2015					
	Gross liabilities	Gross asset offset	Net amounts presented in the statement of financial position	Non-offsetting amount		Net amount
				Financial instruments	Cash collateral	
Derivatives held for trading	₩ 2,288,296	₩ -	₩ 2,288,296	₩ (1,724,586)	₩ (4,632)	₩ 559,078
Derivatives held for hedging	34,761	-	34,761	(14,417)	-	20,344
Payable spot exchange	2,842,407	-	2,842,407	(2,840,480)	-	1,927
Repurchase agreements ¹	1,817,754	-	1,817,754	(1,817,754)	-	-
Securities borrowing agreements	517,458	-	517,458	(517,458)	-	-
Domestic exchange settlement credits	18,104,678	(17,986,079)	118,599	(118,599)	-	-
Other financial instruments	597,782	(473,983)	123,799	(53)	-	123,746
	₩ 26,203,136	₩ (18,460,062)	₩ 7,743,074	₩ (7,033,347)	₩ (4,632)	₩ 705,095

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 banks	Woori Bank and others	0.00~2.60	1,233,368	1,610,649
	Due from others	Kyobo Securities Co., Ltd. and others	0.00~2.07	3,276,913	3,406,289
				11,769,545	11,393,899
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	Bank of Korea and others	-	2,025,373	1,211,342
	Time deposits in foreign currencies	Bank of Communications Seoul Branch and others	0.14~5.30	808,253	1,131,816
	Due from others	Bank of Japan and others	-	723,002	107,697
				3,556,628	2,450,855
				₩ 15,326,173	₩ 13,844,754

Restricted cash 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 Banking institution	Woori Bank and others	209,676	96,708	Deposits related to securitization
	Due from others	The Korea Securities Finance Corporation and others	580,655	86,915	Market entry deposit and others
			8,049,595	6,560,584	
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 deposit in foreign currencies	Sumitomo Mitsui New York and others	24,170	17,580	Bank Act of the State of New York
	Due from others	Samsung Futures Inc. and others	664,082	44,698	Derivatives margin account and others
			1,252,351	563,657	
			₩ 9,301,946	₩ 7,124,241	

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)

Assets pledged	Pledgee	2016	
		Carrying amount	Reason of pledge
Due from financial institutions Financial assets held for trading	Korea Federation of Savings Banks and others	₩ 159,736	Borrowings from Bank and others
	Korea Securities Depository and others	5,977,536	Repurchase agreements
	Korea Securities Depository and others	2,392,945	Securities borrowing transactions
	Korea Exchange, Inc. and others	2,170,588	Derivatives transactions
		10,541,069	
Available-for-sale financial assets	Korea Securities Depository and others	3,314,106	Repurchase agreements
	Korea Securities Depository and others	193,028	Securities borrowing transactions
	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	1,084,500	Derivatives transactions
	Others	19,956	Others
		5,595,783	
Held-to-maturity financial assets	Korea Securities Depository and others	44,988	Repurchase agreements
	Bank of Korea	1,251,011	Borrowings from Bank of Korea
	Bank of Korea	1,185,267	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others	209,022	Derivatives transactions
	Others	296,632	Others
		2,986,920	
Mortgage loans Real estate	Others	2,252,315	Covered bond
	Natixis Real Estate Capital LLC and others	791,873	Borrowings from Bank and others
		₩ 22,327,696	

(In millions of Korean won)

Assets pledged	Pledgee	2015	
		Carrying amount	Reason of pledge
Due from financial institutions Financial assets held for trading	Korea Federation of Savings Banks and others	₩ 178,968	Borrowings from Bank and others
	Korea Securities Depository and others	1,383,203	Repurchase agreements
	Korea Securities Depository and others	694,242	Securities borrowing transactions
	Samsung Futures Inc. and others	26,229	Derivatives transactions
	Others	560,346	Others
		2,664,020	
Available-for-sale financial assets	Korea Securities Depository and others	481,937	Repurchase agreements
	Korea Securities Depository and others	124,980	Securities borrowing transactions
	Bank of Korea	594,020	Borrowings from Bank of Korea
	Bank of Korea	61,410	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others	432,591	Derivatives transactions
	Others	217,826	Others
		1,912,764	
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	189,814	Others
		2,235,986	
Mortgage loans	Others	1,745,823	Covered bond
	₩ 8,737,561		

The fair values of collateral available to sell or repledge, and collateral sold or repledged, regardless of debtor's default, as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		
	Fair value of collateral held	Fair value of collateral sold or repledged	Total
Securities	₩ 2,990,908	₩ -	₩ 2,990,908

(In millions of Korean won)

	2015		
	Fair value of collateral held	Fair value of collateral sold or repledged	Total
Securities	₩ 2,045,575	₩ -	₩ 2,045,575

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 debts in Korean won, financial 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 financial debentures in foreign currencies as hedging instruments to hedge foreign exchange risks on net investments in foreign operations.

Details of derivative financial instruments held for trading as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016					
	Notional amount		Assets		Liabilities	
Interest rate						
Futures ¹	₩	4,352,216	₩	130	₩	620
Swaps		138,697,962		695,474		676,887
Options		6,376,707		48,323		161,747
		149,426,885		743,927		839,254
Currency						
Forwards		58,662,586		1,343,953		1,206,539
Futures ¹		482,323		1,210		-
Swaps		30,929,704		756,936		919,549
Options		487,937		4,955		4,557
		90,562,550		2,107,054		2,130,645
Stock and index						
Futures ¹		823,202		9,438		170
Swaps		6,276,026		105,437		175,679
Options		10,641,997		259,896		511,218
		17,741,225		374,771		687,067
Credit						
Swaps		5,219,740		55,207		49,653
		5,219,740		55,207		49,653
Commodity						
Futures ¹		320		-		7
Swaps		12,240		766		4,765
Options		2,168		20		-
		14,728		786		4,772
Other		1,145,195		16,583		6,428
	₩	264,110,323	₩	3,298,328	₩	3,717,819

(In millions of Korean won)

	2015					
	Notional amount		Assets		Liabilities	
Interest rate						
Futures ¹	₩	1,412,251	₩	-	₩	-
Swaps		92,008,910		910,744		892,601
Options		5,874,500		73,724		133,087
		99,295,661		984,468		1,025,688
Currency						
Forwards		34,103,783		512,411		308,540
Futures ¹		606,297		150		44
Swaps		25,303,179		596,668		782,911
Options		373,241		2,197		3,526
		60,386,500		1,111,426		1,095,021
Stock and index						
Futures ¹		177,781		486		81
Swaps		1,297,420		9,690		122,188
Options		471,095		35,543		17,554
		1,946,296		45,719		139,823
Credit						
Swaps		600,000		13,408		13,413
		600,000		13,408		13,413
Commodity						
Futures ¹		2,885		31		-
Swaps		5,074		638		699
		7,959		669		699
Other						
		793,200		10,281		8,150
	₩	163,029,616	₩	2,165,971	₩	2,282,794

¹A gain or loss from daily mark-to-market futures is reflected in the margin accounts.

Fair Value Hedge

Details of derivative instruments designated as fair value hedge as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016					
	Notional amount		Assets		Liabilities	
Interest rate						
Swaps	₩	3,130,646	₩	48,424	₩	63,634
Currency						
Forwards		433,831		1,912		17,454
Other		140,000		1,463		186
	₩	3,704,477	₩	51,799	₩	81,274

(In millions of Korean won)

	2015					
	Notional amount		Assets		Liabilities	
Interest rate						
Swaps	₩	3,108,538	₩	91,341	₩	21,461
Currency						
Forwards		331,533		800		7,637
Other		140,000		1,211		497
	₩	3,580,071	₩	93,352	₩	29,595

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	₩	(88,999)	₩	(47,491)
Gains(losses) on the hedged items attributable to the hedged risk		91,167		48,265
	₩	2,168	₩	774

Cash Flow Hedge

Details of derivative instruments designated as cash flow hedge as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016					
	Notional amount		Assets		Liabilities	
Interest rate						
Swaps	₩	1,078,000	₩	907	₩	8,035
Currency						
Swaps		362,550		29,888		-
	₩	1,440,550	₩	30,795	₩	8,035

(In millions of Korean won)

	2015					
	Notional amount		Assets		Liabilities	
Interest rate						
Swaps	₩	498,000	₩	-	₩	13,367
Currency						
Swaps		351,600		18,789		-
	₩	849,600	₩	18,789	₩	13,367

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	₩	16,759	₩	24,047
Gains(losses) on effectiveness (amount recognized in other comprehensive income)		16,238		23,368
Gains(losses) on ineffectiveness	₩	521	₩	679

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	
Amount recognized in other comprehensive income	₩	16,238	₩	23,368
Amount reclassified from equity to profit or loss		(10,447)		(22,118)
Tax effect		(1,488)		(525)
	₩	4,303	₩	725

Hedge on Net Investments in Foreign Operations

Details of derivative instruments designated as fair value hedge as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016					
	Notional amount		Assets		Liabilities	
Currency						
Forwards	₩	12,502	₩	1,013	₩	-

(In millions of Korean won)

	2015					
	Notional amount		Assets		Liabilities	
Currency						
Forwards	₩	-	₩	-	₩	-

The effective portion of gain (loss) on hedging instruments recognized in other comprehensive income for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
Amount recognized in other comprehensive income	₩	(9,360)	₩	(33,611)
Tax effect		2,265		8,134
Amount recognized in other comprehensive income, net of tax	₩	(7,095)	₩	(25,477)

The fair value of non-derivative financial instruments designated as hedging instruments is as follows:

(In millions of Korean won)

	2016		2015	
Financial debentures in foreign currencies	₩	199,478	₩	582,205

10. Loans

Details of loans as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
Loans	₩	267,045,265	₩	246,911,148
Deferred loan origination fees and costs		718,625		676,276
Less : Allowances for loan losses		(2,277,756)		(2,582,054)
Carrying amount	₩	265,486,134	₩	245,005,370

Details of loans for other 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
Less : Allowances for loan losses		(66)		(39)
Carrying amount	₩	5,542,923	₩	6,779,923

Details of loan types and customer types of loans to customers, other than banks, as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016			
	Retail	Corporate	Credit card	Total
Loans in Korean won	₩ 130,381,597	₩ 101,541,864	₩ -	₩231,923,461
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	-	263,831	-	263,831
Bills bought in Korean won	-	5,568	-	5,568
Bills bought in foreign currencies	-	2,834,171	-	2,834,171
Guarantee payments under payment guarantee	172	11,327	-	11,499
Credit card receivables in Korean won	-	-	13,525,992	13,525,992
Credit card receivables in foreign currencies	-	-	4,251	4,251
Reverse repurchase agreements	-	1,244,200	-	1,244,200
Privately placed bonds	-	1,468,179	-	1,468,179
Factored receivables	810,582	17,898	-	828,480
Lease receivables	1,470,503	66,764	-	1,537,267
Loans for installment credit	2,293,150	-	-	2,293,150
	135,028,333	113,662,325	13,530,243	262,220,901
Proportion (%)	51.49	43.35	5.16	100.00
Less : Allowances	(481,289)	(1,382,106)	(414,295)	(2,277,690)
	₩ 134,547,044	₩ 112,280,219	₩ 13,115,948	₩ 259,943,211

(In millions of Korean won)

	2015			
	Retail	Corporate	Credit card	Total
Loans in Korean won	₩ 119,232,458	₩ 93,544,200	₩ -	₩ 212,776,658
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	109	26,129	-	26,238
Credit card receivables in Korean won	-	-	12,131,776	12,131,776
Credit card receivables in foreign currencies	-	-	4,149	4,149
Reverse repurchase agreements	-	228,000	-	228,000
Privately placed bonds	-	822,037	-	822,037
Factored receivables	2,658,457	48,568	-	2,707,025
Lease receivables	1,149,352	61,054	-	1,210,406
Loans for installment credit	1,153,124	-	-	1,153,124
	124,235,913	104,435,624	12,135,925	240,807,462
Proportion (%)	51.59	43.37	5.04	100.00
Less : Allowances	(491,352)	(1,692,313)	(398,350)	(2,582,015)
	₩ 123,744,561	₩ 102,743,311	₩ 11,737,575	₩ 238,225,447

The 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	Business combination	Others	Ending
Deferred loan origination costs						
Loans in Korean won	₩ 659,553	₩ 368,551	₩ 383,926	₩ 18,863	₩ -	₩ 663,041
Other origination costs	77,908	80,535	58,565	-	-	99,878
	737,461	449,086	442,491	18,863	-	762,919
Deferred loan origination fees						
Loans in Korean won	43,720	13,204	37,442	363	-	19,845
Other origination fees	17,465	23,371	16,389	-	2	24,449
	61,185	36,575	53,831	363	2	44,294
	₩ 676,276	₩ 412,511	₩ 388,660	₩ 18,500	₩ (2)	₩ 718,625

(In millions of Korean won)

	2015				
	Beginning	Increase	Decrease	Others	Ending
Deferred loan origination costs					
Loans in Korean won	₩ 627,291	₩ 499,488	₩ 467,226	₩ -	₩ 659,553
Other origination costs	57,491	66,992	46,575	-	77,908
	684,782	566,480	513,801	-	737,461
Deferred loan origination fees					
Loans in Korean won	62,356	39,221	57,857	-	43,720
Other origination fees	21,284	13,726	17,554	9	17,465
	83,640	52,947	75,411	9	61,185
	₩ 601,142	₩ 513,533	₩ 438,390	₩ (9)	₩ 676,276

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	Credit card	Total
Beginning	₩ 491,352	₩ 1,692,352	₩ 398,350	₩ 2,582,054
Written-off	(295,459)	(747,151)	(356,705)	(1,399,315)
Recoveries from written-off loans	167,033	214,915	133,456	515,404
Sale and repurchase	(23,046)	(55,151)	-	(78,197)
Provision ¹	82,035	252,195	244,569	578,799
Business combination	59,615	76,755	-	136,370
Other changes	(241)	(51,743)	(5,375)	(57,359)
Ending	₩ 481,289	₩ 1,382,172	₩ 414,295	₩ 2,277,756

(In millions of Korean won)

	2015			
	Retail	Corporate	Credit card	Total
Beginning	₩ 536,959	₩ 1,525,152	₩ 389,941	₩ 2,452,052
Written-off	(354,107)	(688,330)	(376,523)	(1,418,960)
Recoveries from written-off loans	195,438	159,490	138,318	493,246
Sale and repurchase	(4,052)	(46,157)	-	(50,209)
Provision ¹	115,997	728,319	255,390	1,099,706
Other changes	1,117	13,878	(8,776)	6,219
Ending	₩ 491,352	₩ 1,692,352	₩ 398,350	₩ 2,582,054

¹ Provision for credit losses in statements of comprehensive income also include provision for unused commitments and guarantees (Note 23.(2)), provision (reversal) for financial guarantees contracts (Note 23.(3)), and provision (reversal) for other financial assets (Note 18.(2)).

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	₩ 5,389,757	₩ 2,509,783
Financial bonds	11,186,427	3,973,387
Corporate bonds	4,594,741	2,106,163
Asset-backed securities	222,076	316,485
Others	1,593,569	418,325
Equity securities:		
Stocks and others	424,637	38,124
Beneficiary certificates	2,615,962	603,769
Others	72,349	69,060
	26,099,518	10,035,096
Financial assets designated at fair value through profit or loss		
Debt securities:		
Corporate bonds	237,595	145,542
Equity securities:		
Stocks and others	65,591	-
Beneficiary certificates	-	195,536
Derivative-linked securities	1,361,591	797,890
Privately placed bonds	94,069	-
	1,758,846	1,138,968
Total financial assets at fair value through profit or loss	₩ 27,858,364	₩ 11,174,064

(In millions of Korean won)

	2016		2015	
Available-for-sale financial assets				
Debt securities:				
Government and public bonds	₩	7,110,899	₩	3,756,819
Financial bonds		11,172,159		7,241,493
Corporate bonds		5,904,414		4,979,535
Asset-backed securities		2,729,749		5,215,974
Others		528,531		416,842
Equity securities:				
Stocks		2,590,989		2,045,381
Equity investments and others		402,659		66,246
Beneficiary certificates		3,530,893		1,264,941
		33,970,293		24,987,231
Held-to-maturity financial assets				
Debts securities:				
Government and public bonds		2,218,274		2,592,221
Financial bonds		1,868,928		1,863,810
Corporate bonds		3,487,787		5,529,595
Asset-backed securities		3,602,515		4,163,902
		11,177,504		14,149,528
Total financial investments	₩	45,147,797	₩	39,136,759

The impairment losses and the reversal of impairment losses in financial investments 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	₩ (35,216)	₩ 328	₩ (34,888)

(In millions of Korean won)

	2015		
	Impairment	Reversal	Net
Available-for-sale financial assets	₩ (227,588)	₩ 265	₩ (227,323)

13. Investments in Associates

Investments in associates as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016				Industry	Location
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount		
Associates						
KB Insurance Co., Ltd. ¹	39.81	₩ 1,052,759	₩ 1,393,320	₩ 1,392,194	Non-life insurance	Korea
Balhae Infrastructure Fund ²	12.61	130,189	133,200	133,200	Investment finance	Korea
Korea Credit Bureau Co., Ltd. ²	9.00	4,500	4,853	4,853	Credit information	Korea
JSC Bank CenterCredit						
Ordinary share ³	29.56	954,104	(32,191)	-	Banking	Kazakhstan
Preference share ³	93.15					
KoFC KBIC Frontier Champ 2010-5(PEF) ¹¹	50.00	23,985	25,105	24,719	Investment finance	Korea
KB GwS Private Securities Investment Trust	26.74	113,880	133,150	129,678	Investment finance	Korea
Incheon Bridge Co., Ltd. ²	14.99	24,677	728	728	Operation of highways and related facilities	Korea
KoFC POSCO HANHWA KB shared growth Private Equity Fund No. 2	25.00	22,701	24,789	24,789	Investment finance	Korea
Shinla Construction Co., Ltd. ¹⁰	20.24	-	(545)	-	Specialty construction	Korea
Terra Co., Ltd. ¹⁰	24.06	-	44	28	Manufacture of hand-operated kitchen appliances and metal ware	Korea
MJT&I Co., Ltd. ¹⁰	22.89	-	(542)	232	Wholesale of other goods	Korea
Jungdong Steel Co., Ltd. ¹⁰	42.88	-	(423)	-	Wholesale of primary metal	Korea
Doosung Metal Co., Ltd. ¹⁰	26.52	-	(51)	-	Manufacture of metal products	Korea
Shinhwa Underwear Co., Ltd. ¹⁰	26.24	-	(138)	103	Manufacture of underwears and sleepwears	Korea
Dpaps Co., Ltd. ¹⁰	38.62	-	151	-	Wholesale of paper products	Korea
Ejade Co., Ltd. ¹⁰	25.81	-	(523)	-	Wholesale of underwears	Korea
Jaeyang Industry Co., Ltd. ¹⁰	20.86	-	(522)	-	Manufacture of luggage and other protective cases	Korea
Kendae Co., Ltd. ¹⁰	41.01	-	(351)	-	Screen printing	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	19,807	Investment finance	Korea
KBIC Private Equity Fund No. 3 ²	2.00	2,050	2,396	2,396	Investment finance	Korea
RAND Bio Science Co., Ltd.	24.24	2,000	2,000	2,000	Research and experimental development on medical sciences and pharmacy	Korea

	2016					
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
isMedia Co., Ltd.	22.87	3,978	3,978	3,978	Software development consulting	Korea
KB No.8 Special Purpose Acquisition Company ^{2,7}	0.10	10	19	19	SPAC	Korea
KB No.9 Special Purpose Acquisition Company ^{2,8}	0.11	24	31	31	SPAC	Korea
KB No.10 Special Purpose Acquisition Company ^{2,9}	0.19	10	20	20	SPAC	Korea
KB No.11 Special Purpose Acquisition Company ²	4.76	10	13	13	SPAC	Korea
KB-Glenwood Private Equity Fund ²	0.03	10	10	10	Investment finance	Korea
IMM Investment 5th PRIVATE EQUITY FUND ¹¹	98.88	10,000	9,999	9,999	Private Equity Fund	Korea
KB Private Equity Fund III ²	15.68	8,000	8,000	8,000	Investment finance	Korea
Hyundai-Tongyang Agrifood Private Equity Fund	25.47	4,645	3,957	3,957	Investment finance	Korea
Keystone-Hyundai Securities No. 1 Private Equity Fund ²	5.64	1,842	1,850	1,850	Investment finance	Korea
Wise Asset Management Co., Ltd. ¹²	33.00	-	-	-	Asset-backed securitization	Korea
Inno Lending Co., Ltd. ²	19.90	398	378	378	Software Development and Supply	Korea
SY Auto Capital Co., Ltd.	49.00	9,800	26,311	5,693	Installment loan	Korea
		₩ 2,391,570	₩ 1,761,185	₩ 1,770,673		

(In millions of Korean won)

	2015					
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
Associates						
KB Insurance Co., Ltd. ¹	33.29	₩ 882,134	₩ 1,077,380	₩ 1,077,014	Non-life insurance	Korea
Balhae Infrastructure Fund ²	12.61	125,462	128,275	128,275	Investment finance	Korea
Korea Credit Bureau Co., Ltd. ²	9.00	4,500	4,580	4,580	Credit information	Korea
UAMCO., Ltd. ²	17.50	85,050	125,822	129,707	Other finance	Korea
JSC Bank CenterCredit Ordinary share ³	29.56	954,104	(21,990)	-	Banking	Kazakhstan
JSC Bank CenterCredit Preference share ³	93.15					
KoFC KBIC Frontier Champ 2010-5(PEF) ¹¹	50.00	26,885	25,895	25,508	Investment finance	Korea
United PF 1st Recovery Private Equity Fund ²	17.73	172,441	187,596	183,117	Other finance	Korea
Shinla Construction Co., Ltd. ¹⁰	20.24	-	(518)	-	Specialty construction	Korea
KB GwS Private Securities Investment Trust	26.74	113,880	131,011	127,539	Investment finance	Korea
Incheon Bridge Co., Ltd. ²	14.99	24,677	(1,879)	-	Operation of highways and related facilities	Korea

	2015					
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
KoFC POSCO HANHWA KB Shared Growth Private Equity Fund No. 2	25.00	30,950	29,090	28,470	Investment finance	Korea
Terra Co., Ltd. ¹⁰	24.06	-	37	21	Manufacture of hand-operated kitchen appliances and metal ware	Korea
MJT&I Co., Ltd. ¹⁰	22.89	-	(580)	149	Wholesale of other goods	Korea
Jungdong Steel Co., Ltd. ¹⁰	42.88	-	87	33	Wholesale of primary metal	Korea
Doosung Metal Co., Ltd. ¹⁰	26.52	-	(47)	-	Manufacture of metal products	Korea
Myungwon Tech Co., Ltd. ¹⁰	25.62	-	(447)	-	Manufacture of automobile parts	Korea
Shinhwa Underwear Co., Ltd. ¹⁰	26.24	-	(186)	56	Manufacture of underwears and sleepwears	Korea
Dpaps Co., Ltd. ¹⁰	38.62	-	339	-	Wholesale of paper products	Korea
Ejade Co., Ltd. ¹⁰	25.81	-	591	-	Wholesale of underwears	Korea
KB Star office Private real estate Investment Trust No.1	21.05	20,000	20,328	19,915	Investment finance	Korea
NPS KBIC Private Equity Fund No. 1 ²	2.56	3,393	-	-	Investment finance	Korea
KBIC Private Equity Fund No. 3 ²	2.00	2,050	2,348	2,348	Investment finance	Korea
Sawnics Co., Ltd.	26.93	1,500	1,397	1,397	Manufacture of mobile phone parts	Korea
KB-Glenwood Private Equity Fund ²	0.03	10	10	10	Investment finance	Korea
KB No.5 Special Purpose Acquisition Company ^{2,4}	0.19	10	20	20	Special Purpose Acquisition Company	Korea
KB No.6 Special Purpose Acquisition Company ^{2,5}	0.25	40	78	78	Special Purpose Acquisition Company	Korea
KB No.7 Special Purpose Acquisition Company ^{2,6}	0.93	50	88	88	Special Purpose Acquisition Company	Korea
KB No.8 Special Purpose Acquisition Company ^{2,7}	0.10	10	19	19	Special Purpose Acquisition Company	Korea
KB No.9 Special Purpose Acquisition Company ²	4.97	16	15	15	Special Purpose Acquisition Company	Korea
SY Auto Capital Co., Ltd.	49.00	9,800	9,481	9,481	Installment loan	Korea
		₩ 2,456,962	₩ 1,718,840	₩ 1,737,840		

¹ The market value of KB Insurance Co., Ltd., reflecting the quoted market price, as of December 31, 2016 and 2015, amounts to ₩522,288 million and ₩583,205 million, respectively

² As of December 31, 2016 and 2015, the Group is represented in the governing bodies of its associates. Therefore, the Group has a significant influence over the decision-making process relating to their financial and business policies.

³ Market values of ordinary shares of JSC Bank CenterCredit, reflecting the published market price, as of December 31, 2016 and 2015, are ₩29,358 million and ₩21,863 million, respectively. The Group determined that ordinary shares and convertible preference shares issued by JSC Bank CenterCredit are the same in economic substance except for the voting rights, and therefore, the equity method accounting is applied on the basis of single ownership ratio of 41.93%, which is calculated based on ordinary and convertible preference shares held by the Group against the total outstanding ordinary and convertible preference shares issued by JSC Bank CenterCredit. On February 10, 2017, the Group entered into an agreement with Tsesnabank consortium in Kazakhstan in order to transfer the entire shares (48,023,250 ordinary shares and 36,561,465 convertible preferred shares) of JSC Bank CenterCredit held by the Group.

⁴ The market value of KB No.5 Special Purpose Acquisition Company, reflecting the quoted market price as of December 31, 2015, amounts to ₩20 million.

⁵ The market value of KB No.6 Special Purpose Acquisition Company, reflecting the quoted market price as of December 31, 2015, amounts to ₩74 million.

⁶ The market value of KB No.7 Special Purpose Acquisition Company, reflecting the quoted market price as of December 31, 2015, amounts to ₩102 million.

⁷ The market value of KB No.8 Special Purpose Acquisition Company, reflecting the quoted market price as of December 31, 2016 and December 31, 2015, amounts to ₩20million and ₩20 million.

⁸ The market value of KB No.9 Special Purpose Acquisition Company, reflecting the quoted market price as of December 31, 2016 amounts to ₩31 million.

⁹ The market value of KB No.10 Special Purpose Acquisition Company, reflecting the quoted market price as of December 31, 2016 amounts to ₩20 million.

¹⁰ The investment in associates was reclassified from available-for-sale financial assets due to re-instated voting rights from termination of rehabilitation procedures.

¹¹ Although the Group holds over than a majority of the investee's voting rights, other limited partners have a right to replace general partners. Therefore, the company has been classified as investment in associates.

¹² All carrying amounts of investments in associates had been recognized as a loss from the date after the Hyundai Securities Co., Ltd. is included in the consolidation scope.

Summarized financial information on major associates, adjustments to carrying amount of investment in associates and dividends received from the associates are as follows:

(In millions of Korean won)

	2016 ¹						
	Total assets	Total liabilities	Share capital	Equity	Share of net asset amount	Unrealized gains (losses)	Consolidated carrying amount
Associates							
KB Insurance Co., Ltd. (initial acquisition 22.59%) (additional acquisition 10.70%) (additional acquisition 6.52%) ²	₩ 30,949,859	₩ 27,357,084	₩ 33,250	₩ 3,592,775	₩ 810,704	₩ (1,126)	₩ 1,392,194
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	-
KoFC KBIC Frontier Champ 2010-5(PEF)	50,213	2	47,970	50,211	25,105	(386)	24,719
KB GwS Private Securities Investment Trust	498,606	741	425,814	497,865	133,150	(3,472)	129,678
Incheon Bridge Co., Ltd.	660,858	656,000	164,621	4,858	728	-	728
KoFC POSCO HANHWA KB shared growth Private Equity Fund No. 2	100,252	1,094	90,800	99,158	24,789	-	24,789
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	(413)	19,807
KBIC Private Equity Fund No. 3	119,885	76	102,500	119,809	2,396	-	2,396
RAND Bio Science Co., Ltd.	2,720	5	83	2,715	2,000	-	2,000
isMedia Co., Ltd. ³	41,192	20,925	2,520	20,267	3,978	-	3,978
KB No.8 Special Purpose Acquisition Company	22,743	2,265	1,031	20,478	19	-	19
KB No.9 Special Purpose Acquisition Company	29,677	2,503	1,382	27,174	31	-	31
KB No.10 Special Purpose Acquisition Company	11,795	1,628	521	10,167	20	-	20
KB No.11 Special Purpose Acquisition Company	991	714	21	277	13	-	13
KB-Glenwood Private Equity Fund	30,558	3,204	31,100	27,354	10	-	10
IMM Investment 5 th PRIVATE EQUITY FUND	10,114	1	10,114	10,113	9,999	-	9,999
Hyundai-Tongyang Agrifood Private Equity Fund	15,910	375	15,360	15,535	3,957	-	3,957

	2016 ¹						
	Total assets	Total liabilities	Share capital	Equity	Share of net asset amount	Unrealized gains (losses)	Consolidated carrying amount
Keystone-Hyundai Securities No. 1 Private Equity Fund	112,865	73,429	34,114	39,436	1,850	-	1,850
KB Private Equity Fund III ³	51,000	-	51,000	51,000	8,000	-	8,000
Inno Lending Co., Ltd.	1,903	1	2,000	1,902	378	-	378
SY Auto Capital Co., Ltd.	65,292	38,981	20,000	26,311	26,311	(20,618)	5,693

(In millions of Korean won)

	2016 ¹				
	Operating income	Profit (loss)	Other comprehensive income	Total comprehensive income	Dividends
Associates					
KB Insurance Co., Ltd. (initial acquisition 22.59%)	₩ 11,229,942	₩ 253,362	₩ (19,150)	₩ 234,212	₩ 7,989
(additional acquisition 10.70%)	11,247,685	274,678	(39,203)	235,475	
Balhae Infrastructure Fund	55,541	46,428	-	46,428	5,654
Korea Credit Bureau Co., Ltd.	59,868	3,517	-	3,517	135
JSC Bank CenterCredit	157,996	(13,912)	(15,374)	(29,286)	1
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	7,355
Incheon Bridge Co., Ltd.	98,341	17,449	-	17,449	-
KoFC POSCO HANHWA KB shared growth Private Equity Fund No. 2	22,411	15,002	872	15,874	-
KB Star office Private real estate Investment Trust No.1	16,314	7,460	-	7,460	1,679
KBIC Private Equity Fund No. 3	2,641	2,361	-	2,361	-
RAND Bio Science Co., Ltd.	-	(112)	-	(112)	-
KB No.8 Special Purpose Acquisition Company	-	317	276	593	-
KB No.9 Special Purpose Acquisition Company	-	129	25,392	25,521	-
KB No.10 Special Purpose Acquisition Company	-	(22)	-	(22)	-
KB No.11 Special Purpose Acquisition Company	-	(12)	-	(12)	-
KB-Glenwood Private Equity Fund	-	(542)	-	(542)	-

	2016 ¹				
	Operating income	Profit (loss)	Other comprehensive income	Total comprehensive income	Dividends
IMM Investment 5 th PRIVATE EQUITY FUND	-	(1)	-	(1)	-
Hyundai-Tongyang Agrifood Private Equity Fund	519	(5,258)	-	(5,258)	-
Keystone-Hyundai Securities No. 1 Private Equity Fund	197	(626)	-	(626)	-
Inno Lending Co., Ltd.	-	(98)	-	(98)	-
SY Auto Capital Co., Ltd.	20,340	6,962	-	6,962	-

¹ The amounts included in the financial statements of the associates are adjusted to reflect adjustments made by the entity; such as, fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

² Details of profit or loss are not disclosed because the 3rd acquisition of shares of KB Insurance Co., Ltd. occurred in December 29, 2016.

³ Details of profit or loss are not disclosed as the entity is classified as an associate during the fourth quarter.

(In millions of Korean won)

	2015 ¹						
	Total assets	Total liabilities	Share capital	Equity	Share of net asset amount	Unrealized gains (losses)	Consolidated carrying amount
Associates							
KB Insurance Co., Ltd.							
(initial acquisition 22.59%)	₩ 29,007,556	₩ 25,769,760	₩ 30,000	₩ 3,237,796	₩ 724,599	₩ (366)	₩ 1,077,014
(additional acquisition 10.70%)	29,127,877	25,798,877	30,000	3,329,000	352,781	-	-
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	-
KoFC KBIC Frontier Champ 2010-5(PEF)	51,934	145	53,770	51,789	25,895	(387)	25,508
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	131,011	(3,472)	127,539
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 No. 2	117,473	1,112	123,800	116,361	29,090	(620)	28,470
KB Star office Private real estate Investment Trust No.1	218,308	121,749	95,000	96,559	20,328	(413)	19,915
NPS KBIC Private Equity Fund No. 1	141	146	-	(5)	-	-	-

	2015 ¹						
	Total assets	Total liabilities	Share capital	Equity	Share of net asset amount	Unrealized gains (losses)	Consolidated carrying amount
KBIC Private Equity Fund No. 3	117,535	87	102,500	117,448	2,348	-	2,348
KB-Glenwood Private Equity Fund	30,558	2,661	31,100	27,897	10	-	10
KB No.5 Special Purpose Acquisition Company	12,576	2,140	522	10,436	20	-	20
KB No.6 Special Purpose Acquisition Company	34,792	3,673	1,600	31,119	78	-	78
KB No.7 Special Purpose Acquisition Company	10,446	1,145	535	9,301	88	-	88
KB No.8 Special Purpose Acquisition Company	22,380	2,495	1,031	19,885	19	-	19
KB No.9 Special Purpose Acquisition Company	2,992	2,689	32	303	15	-	15
SY Auto Capital Co., Ltd.	19,609	259	20,000	19,350	9,481	-	9,481

(In millions of Korean won)

	2015 ¹				
	Operating income	Profit (loss)	Other comprehensive income	Total comprehensive income	Dividends
Associates					
KB Insurance Co., Ltd. ²					
(initial acquisition 22.59%)	₩ 5,488,210	₩ 71,980	₩ 14,726	₩ 86,706	₩ -
(additional acquisition 10.70%) ²	2,545,858	21,815	(35,440)	(13,625)	-
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
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	7,086
Incheon Bridge Co., Ltd.	87,230	(803)	-	(803)	-
KB Star office Private real estate Investment Trust No.1	15,990	7,727	-	7,727	1,620
KoFC POSCO HANHWA KB Shared Growth Private Equity Fund	8,915	(3,117)	7,978	4,861	-
NPS KBIC Private Equity Fund No. 1	-	(11)	-	(11)	-
KBIC Private Equity Fund No. 3	3,362	3,045	-	3,045	-
KB-Glenwood Private Equity Fund	-	(390)	-	(390)	-

	2015 ¹				
	Operating income	Profit (loss)	Other comprehensive income	Total comprehensive income	Dividends
KB No.5 Special Purpose Acquisition Company	-	278	-	278	-
KB No.6 Special Purpose Acquisition Company	-	781	-	781	-
KB No.7 Special Purpose Acquisition Company	-	(14)	-	(14)	-
KB No.8 Special Purpose Acquisition Company	-	(404)	-	(404)	-
KB No.9 Special Purpose Acquisition Company	-	(11)	-	(11)	-
SY Auto Capital Co., Ltd.	42	(651)	-	(651)	-

¹ The amounts included in the financial statements of the associates are adjusted to reflect adjustments made by the entity, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

² The amounts disclosed are for the period from the deemed acquisition date to the year end.

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	Disposal	Dividends	Gains (losses) on equity-method accounting	Other-comprehensive income	Others	Ending
Associates								
KB Insurance Co., Ltd. ¹	₩ 1,077,014	₩ 170,625	₩ -	₩ (7,989)	₩ 160,954	₩ (8,410)	₩ -	₩ 1,392,194
Hyundai Securities Co., Ltd. ²	-	1,349,150	(1,459,604)	-	112,931	(2,477)	-	-
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	-	-	-
KoFC KBIC Frontier Champ 2010-5(PEF)	25,508	-	(2,900)	-	916	1,195	-	24,719
United PF 1st Recovery Private Equity Fund	183,117	-	(190,863)	-	7,746	-	-	-
KB GwS Private Securities Investment Trust	127,539	-	-	(7,355)	9,494	-	-	129,678
KoFC POSCO HANHWA KB shared growth Private Equity Fund No. 2	28,470	3,751	(12,000)	-	4,578	(10)	-	24,789
Incheon Bridge Co., Ltd.	-	-	-	-	728	-	-	728
Terra Co., Ltd.	21	-	-	-	7	-	-	28
MJT&I Co., Ltd.	149	-	-	-	83	-	-	232

(In millions of Korean won)

	2016							
	Beginning	Acquisition	Disposal	Dividends	Gains (losses) on equity- method accounting	Other- compre- hensive income	Others	Ending
Jungdong Steel Co., Ltd.	33	-	-	-	(33)	-	-	-
Shinhwa Underwear Co., Ltd.	56	-	-	-	47	-	-	103
Aju Good Technology Venture Fund	-	2,000	(2)	-	-	-	-	1,998
KB Star office Private real estate Investment Trust No.1	19,915	-	-	(1,679)	1,571	-	-	19,807
KBIC Private Equity Fund No. 3	2,348	-	-	-	48	-	-	2,396
Sawnics Co., Ltd.	1,397	-	(1,223)	-	(174)	-	-	-
RAND Bio Science Co., Ltd.	-	2,000	-	-	-	-	-	2,000
isMedia Co. Ltd	-	3,978	-	-	-	-	-	3,978
KB No.5 Special Purpose Acquisition Company	20	-	(20)	-	-	-	-	-
KB No.6 Special Purpose Acquisition Company	78	-	(78)	-	-	-	-	-
KB No.7 Special Purpose Acquisition Company	88	-	(88)	-	-	-	-	-
KB No.8 Special Purpose Acquisition Company	19	-	-	-	-	-	-	19
KB No.9 Special Purpose Acquisition Company ³	15	4,082	(4,074)	-	-	-	8	31
KB No.10 Special Purpose Acquisition Company ⁴	-	10	-	-	-	-	10	20
KB No.11 Special Purpose Acquisition Company	-	10	-	-	(1)	4	-	13
KB-Glenwood Private Equity Fund	10	-	-	-	-	-	-	10
IMM Investment 5 th PRIVATE EQUITY FUND	-	10,000	-	-	(1)	-	-	9,999
KB Private Equity Fund III	-	8,000	-	-	-	-	-	8,000
Hyundai-Tongyang Agrifood Private Equity Fund ⁵	-	-	-	-	(688)	-	4,645	3,957
Keystone-Hyundai Securities No. 1 Private Equity Fund ⁶	-	-	-	-	(3)	11	1,842	1,850
Inno Lending Co., Ltd	-	398	-	-	(20)	-	-	378
SY Auto Capital Co., Ltd.	9,481	-	-	-	(3,788)	-	-	5,693
	₩ 1,737,840	₩ 1,558,731	₩ (1,772,592)	₩ (49,774)	₩ 299,650	₩ (9,687)	₩ 6,505	₩ 1,770,673

¹ Among the gain on valuation of equity-method investments, ₩75,097 million includes the gains on bargain purchase.

² Hyundai Securities Co., Ltd. are included as a subsidiary in October 2016.

³ Other gain of KB No.9 Special Purpose Acquisition Company amounting ₩8 million represents the changes in interests due to unequal share capital increase in the associate.

⁴ Other gain of KB No.10 Special Purpose Acquisition Company amounting ₩10 million represents the changes in interests due to unequal share capital increase in the associate.

⁵ Other gain of Hyundai-Tongyang Agrifood Private Equity Fund amounting ₩4,645 million represents the Hyundai Securities Co., Ltd.'s inclusion of the consolidation scope.

⁶ Other gain of Keystone-Hyundai Securities No. 1 Private Equity Fund amounting ₩1,842 million represents the Hyundai Securities Co., Ltd.'s inclusion of the consolidation scope.

⁷ Loss on disposal of investments in associates for the year ended December 31, 2016, amounts to ₩18,812 million.

(In millions of Korean won)

	2015							
	Beginning	Acquisition and other	Disposal and other	Dividends	Gains (losses) on equity-method accounting	Other-comprehensive income	Others	Ending
Associates								
KB Insurance Co., Ltd. ¹	₩ -	₩ 882,134	₩ -	₩ -	₩ 195,344	₩ (464)	₩ -	₩ 1,077,014
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)	-	-	-
KoFC KBIC Frontier Champ 2010-5(PEF)	23,559	-	(4,750)	-	7,894	(1,195)	-	25,508
United PF 1st Recovery Private Equity Fund	198,089	-	(19,028)	-	4,056	-	-	183,117
KB GwS Private Securities Investment Trust	124,074	-	-	(7,086)	10,551	-	-	127,539
KoFC POSCO HANHWA KB Shared Growth Private Equity Fund	22,329	7,450	(2,750)	-	(1,158)	2,599	-	28,470
CH Engineering Co., Ltd.	20	-	-	-	(20)	-	-	-
Terra Co., Ltd.	-	-	-	-	21	-	-	21
MJT&I Co., Ltd.	-	-	-	-	149	-	-	149
Jungdong Steel Co., Ltd.	-	-	-	-	33	-	-	33
Shinhwa Underwear Co., Ltd.	-	-	-	-	56	-	-	56
KB Star office Private real estate Investment Trust No.1	19,989	-	-	(1,620)	1,546	-	-	19,915
KBIC Private Equity Fund No. 3	2,287	-	-	-	61	-	-	2,348
Sawnics Co., Ltd.	-	1,500	-	-	(103)	-	-	1,397
E-clear International Co., Ltd.	-	600	(600)	-	-	-	-	-
KB-Glenwood Private Equity Fund	10	-	-	-	-	-	-	10

(In millions of Korean won)

	2015							
	Beginning	Acquisition and other	Disposal and other	Dividends	Gains (losses) on equity-method accounting	Other-comprehensive income	Others	Ending
KB No.3 Special Purpose Acquisition Company	39	-	(39)	-	-	-	-	-
KB No.4 Special Purpose Acquisition Company	38	-	(38)	-	-	-	-	-
KB No.5 Special Purpose Acquisition Company	19	-	-	-	1	-	-	20
KB No.6 Special Purpose Acquisition Company	77	-	-	-	2	(1)	-	78
KB No.7 Special Purpose Acquisition Company ²	-	50	-	-	-	-	38	88
KB No.8 Special Purpose Acquisition Company ³	-	10	-	-	(1)	-	10	19
KB No.9 Special Purpose Acquisition Company	-	16	-	-	(1)	-	-	15
SY Auto Capital Co., Ltd.	-	9,800	-	-	(319)	-	-	9,481
	₩ 670,332	₩ 904,399	₩ (27,205)	₩ (13,633)	₩ 202,861	₩ 1,038	₩ 48	₩ 1,737,840

¹ Among the gain on valuation of equity-method investments, ₩177,114 million includes the gains on bargain purchase.

² Other gain of KB No.7 Special Purpose Acquisition Company amounting ₩38 million represents the changes in interests due to unequal paid-in capital increase in the associate.

³ Other gain of KB No.8 Special Purpose Acquisition Company amounting ₩10 million represents the changes in interests due to unequal paid-in capital increase in the associate.

⁴ Gain on disposal of investments in associates for the year ended December 31, 2015, amounts to ₩236 million.

Accumulated unrecognized share of losses in investments in associates due to discontinuation of applying the equity method for the years ended December 31, 2016 and 2015, are as follows:

	2016		2015	
	Unrecognized loss	Accumulated unrecognized loss	Unrecognized loss	Accumulated unrecognized loss
JSC Bank CenterCredit	₩ 5,308	₩ 108,760	₩ 103,453	₩ 103,453
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.	476	476	-	-
Dpaps Co., Ltd.	188	188	-	-
Ejade Co., Ltd.	1,112	1,112	-	-

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	₩ 2,325,568	₩ -	₩ (1,018)	₩ 2,324,550
Buildings	1,469,894	(482,319)	(5,859)	981,716
Leasehold improvements	711,316	(637,588)	-	73,728
Equipment and vehicles	1,591,143	(1,353,935)	(6,938)	230,270
Construction in progress	4,205	-	-	4,205
Financial lease assets	34,111	(21,312)	-	12,799
	₩ 6,136,237	₩ (2,495,154)	₩ (13,815)	₩ 3,627,268

(In millions of Korean won)

	2015			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Land	₩ 2,081,704	₩ -	₩ (1,018)	₩ 2,080,686
Buildings	1,351,011	(408,339)	(5,859)	936,813
Leasehold improvements	629,956	(575,112)	-	54,844
Equipment and vehicles	1,640,777	(1,446,285)	-	194,492
Construction in progress	635	-	-	635
Financial lease assets	33,505	(13,592)	-	19,913
	₩ 5,737,588	₩ (2,443,328)	₩ (6,877)	₩ 3,287,383

The 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 ²	Business combination	Others	Ending
Land	₩ 2,080,686	₩ 98,566	₩ 71,086	₩ (127)	₩ -	₩ 74,319	₩ 20	₩ 2,324,550
Buildings	936,813	4,008	34,811	(545)	(33,385)	39,950	64	981,716
Leasehold improvement	54,844	7,843	48,504	(1,033)	(50,200)	3,431	10,339	73,728
Equipment and vehicles	194,492	141,546	-	(1,553)	(131,926)	21,196	6,515	230,270
Construction in-progress	635	144,589	(141,020)	-	-	-	1	4,205
Financial lease assets	19,913	605	-	-	(7,719)	-	-	12,799
	₩ 3,287,383	₩ 397,157	₩ 13,381	₩ (3,258)	₩ (223,230)	₩ 138,896	₩ 16,939	₩ 3,627,268

(In millions of Korean won)

	2015							
	Beginning	Acquisition	Transfers ¹	Disposal	Depreciation ²	Others	Ending	
Land	₩ 1,970,010	₩ 6,039	₩ 104,923	₩ (297)	₩ -	₩ 11	₩ 2,080,686	
Buildings	856,222	9,946	102,760	(898)	(30,712)	(505)	936,813	
Leasehold improvement	52,496	6,549	30,797	(1,495)	(38,049)	4,546	54,844	
Equipment and vehicles	164,421	139,122	-	(875)	(108,242)	66	194,492	
Construction in-progress	7,946	67,554	(74,867)	-	-	2	635	
Financial lease assets	31,890	554	-	-	(12,518)	(13)	19,913	
	₩ 3,082,985	₩ 229,764	₩ 163,613	₩ (3,565)	₩ (189,521)	₩ 4,107	₩ 3,287,383	

¹ Including transfers with investment property and assets held for sale.² Including depreciation cost and others ₩212 million and ₩94 million recorded in other operating expenses in the statements of comprehensive income for the years ended December 31, 2016 and 2015, respectively.

The 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		Business combination		Others		Ending	
₩	(6,877)	₩	-	₩	3,383	₩	(10,321)	₩	-	₩	(13,815)

(In millions of Korean won)

2015									
Beginning		Impairment		Reversal		Others		Ending	
₩	(2,117)	₩	(557)	₩	-	₩	(4,203)	₩	(6,877)

Details of investment property 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	₩	203,795	₩	-	₩	(1,404)	₩	202,391
Buildings		616,085		(63,465)		-		552,620
	₩	819,880	₩	(63,465)	₩	(1,404)	₩	755,011

(In millions of Korean won)

	2015							
	Acquisition cost		Accumulated depreciation		Accumulated impairment losses		Carrying amount	
Land	₩	125,291	₩	-	₩	(738)	₩	124,553
Buildings		97,676		(10,414)		-		87,262
	₩	222,967	₩	(10,414)	₩	(738)	₩	211,815

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	₩	41,879	Cost Approach Method	- Price per square meter - Replacement cost
		744,627	Income approach	- Discount rate - Capitalization rate - Vacancy rate

As of December 31, 2016 and 2015, fair values of the investment properties amount to ₩786,506 million and ₩404,713 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 ₩12,884 million and ₩22,201 million, respectively.

The changes in investment property for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016													
	Beginning	Acquisition	Transfers	Depreciation	Business combination	Others	Ending							
Land	₩	124,553	₩	-	₩	(17,184)	₩	-	₩	92,826	₩	2,196	₩	202,391
Building		87,262		1,254		(8,108)		(2,531)		441,905		32,838		552,620
	₩	211,815	₩	1,254	₩	(25,292)	₩	(2,531)	₩	534,731	₩	35,034	₩	755,011

(In millions of Korean won)

	2015									
	Beginning	Acquisition	Transfers	Depreciation	Ending					
Land	₩	228,699	₩	21	₩	(104,167)	₩	-	₩	124,553
Buildings		148,845		4,268		(62,499)		(3,352)		87,262
	₩	377,544	₩	4,289	₩	(166,666)	₩	(3,352)	₩	211,815

15. Intangible Assets

Details of intangible assets as of December 31, 2016 and 2015, are follows:

(In millions of Korean won)

	2016			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying
Goodwill	₩ 331,707	₩ -	₩ (69,315)	₩ 262,392
Other intangible assets	1,312,732	(877,881)	(44,927)	389,924
	₩ 1,644,439	₩ (877,881)	₩ (114,242)	₩ 652,316

(In millions of Korean won)

	2015			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying
Goodwill	₩ 331,707	₩ -	₩ (69,315)	₩ 262,392
Other intangible assets	935,686	(705,039)	(26,211)	204,436
	₩ 1,267,393	₩ (705,039)	₩ (95,526)	₩ 466,828

Details of goodwill as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
	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
KB Securities Co., Ltd. ¹	70,265	58,889	70,265	58,889
KB Capital Co., Ltd.	79,609	79,609	79,609	79,609
KB Savings Bank Co., Ltd.	115,343	57,404	115,343	57,404
	₩ 331,707	₩ 262,392	₩ 331,707	₩ 262,392

¹ The amount occurred from formerly known as KB Investment&Securities Co., Ltd.

The changes in accumulated impairment losses of goodwill for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016			
	Beginning	Impairment	Others	Ending
	₩ 69,315	₩ -	₩ -	₩ 69,315

(In millions of Korean won)

		2015					
Beginning		Impairment		Others		Ending	
₩		₩		₩		₩	
	69,315		-		-		69,315

The details of allocating goodwill to cash-generating units and related information for impairment testing as of December 31, 2016, are as follows:

(In millions of Korean won)

	Housing & Commercial Bank							Total
	Retail Banking	Corporate Banking	KB Cambodia Bank	KB Securities Co., Ltd. ¹	KB Capital Co., Ltd.	KB Savings Bank Co., Ltd. and Yehansoul Savings Bank Co., Ltd.		
Carrying amounts	₩ 49,315	₩ 15,973	₩ 1,202	₩ 58,889	₩ 79,609	₩ 57,404	₩ 262,392	
Recoverable amount exceeded carrying amount	11,517,237	2,726,509	63	208,822	174,597	43,230	14,670,458	
Discount rate (%)	12.70	12.91	28.64	19.99	14.34	14.58		
Permanent growth rate (%)	1.00	1.00	1.00	1.00	1.00	1.00		

¹ The amount occurred from formerly known as KB Investment&Securities Co., Ltd.

Goodwill is allocated to cash-generating units, based on management's analysis, that are expected to benefit from the synergies of the combination for impairment testing, and cash-generating units consist of an operating segment or units which are not larger than an operating segment. The Group recognized the amount of ₩65,288 million related to goodwill acquired in the merger of Housing & Commercial Bank. Of those respective amounts, the amounts of ₩49,315 million and ₩15,973 million were allocated to the Retail Banking and Corporate Banking, respectively. Cash-generating units to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit.

The recoverable amount of a cash-generating unit is measured at the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. If it is difficult to measure the amount obtainable from the sale, 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 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% for all other cash-generating units. 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	₩ 4,617	₩ (1,612)	₩ -	₩ 3,005
Software	887,098	(749,997)	-	137,101
Other intangible assets	378,608	(111,814)	(44,927)	221,867
Finance leases assets	42,409	(14,458)	-	27,951
	₩ 1,312,732	₩ (877,881)	₩ (44,927)	₩ 389,924

(In millions of Korean won)

	2015			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Industrial property rights	₩ 1,497	₩ (1,177)	₩ -	₩ 320
Software	675,490	(600,481)	-	75,009
Other intangible assets	217,213	(96,186)	(26,211)	94,816
Finance leases assets	41,486	(7,195)	-	34,291
	₩ 935,686	₩ (705,039)	₩ (26,211)	₩ 204,436

The 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	Transfer	Amortization ¹	Business combination	Others	Ending
Industrial property rights	₩ 320	₩ 3,073	₩ -	₩ -	₩ (388)	₩ -	₩ -	₩ 3,005
Software	75,009	91,631	-	-	(41,540)	11,998	3	137,101
Other intangible assets ²	94,816	16,900	(7,234)	1,926	(14,701)	132,461	(2,301)	221,867
Finance leases assets	34,291	708	-	-	(7,048)	-	-	27,951
	₩ 204,436	₩ 112,312	₩ (7,234)	₩ 1,926	₩ (63,677)	₩ 144,459	₩ (2,298)	₩ 389,924

(In millions of Korean won)

	2015							
	Beginning	Acquisition	Disposal	Transfer	Amortization ¹	Others	Ending	
Industrial property rights	₩ 391	₩ 75	₩ -	₩ -	₩ (154)	₩ 8	₩ 320	
Software	79,598	39,473	-	-	(44,098)	36	75,009	
Other intangible assets ²	106,039	12,578	(3,619)	(300)	(13,489)	(6,393)	94,816	
Finance leases assets	40,502	647	-	-	(6,843)	(15)	34,291	
	₩ 226,530	₩ 52,773	₩ (3,619)	₩ (300)	₩ (64,584)	₩ (6,364)	₩ 204,436	

¹ Including ₩ 607 million and ₩ 56 million recorded in other operating expenses and others in the statements of comprehensive income for the years ended December 31, 2016 and 2015.

² Impairment loss for membership right of other intangible asset with indefinite useful life was recognized when its recoverable amount is lower than its carrying amount, and reversal of impairment loss was recognized when its recoverable amount is higher than its carrying amount.

The changes in accumulated impairment losses on intangible assets for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016				
	Beginning	Impairment	Reversal	Disposal and others	Ending
Accumulated impairment losses on intangible assets	₩ (26,211)	₩ (2,704)	₩ 482	₩ (16,494)	₩ (44,927)

(In millions of Korean won)

	2015				
	Beginning	Impairment	Reversal	Disposal and others	Ending
Accumulated impairment losses on intangible assets	₩ (24,698)	₩ (6,627)	₩ 360	₩ 4,754	₩ (26,211)

The changes in emissions rights for year ended December 31, 2016 and 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	116,799	₩ -	112,137	₩ -	109,140	₩ -	338,076	₩ -
Borrowing	8,518	-	(8,518)	-	-	-	-	-
Surrendered to government	(121,261)	-	-	-	-	-	(121,261)	-
Cancel	(4,056)	-	(4,336)	-	(4,220)	-	(12,612)	-
Ending	-	₩ -	99,283	₩ -	104,920	₩ -	204,203	₩ -

(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

Details of deferred income tax assets and liabilities as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		
	Assets	Liabilities	Net amount
Other provisions	₩ 91,201	₩ -	₩ 91,201
Allowances for loan losses	7,297	-	7,297
Impairment losses on property and equipment	7,920	(359)	7,561
Interest on equity index-linked deposits	41	-	41
Share-based payments	13,709	-	13,709
Provisions for guarantees	30,569	-	30,569
Losses(gains) from valuation on derivative financial instruments	9,761	(46,765)	(37,004)
Present value discount	11,358	(6,160)	5,198
Losses(gains) from fair value hedged item	-	(14,335)	(14,335)
Accrued interest	-	(84,676)	(84,676)
Deferred loan origination fees and costs	1,247	(158,914)	(157,667)
Gains from revaluation	803	(286,119)	(285,316)
Investments in subsidiaries and others	12,014	(109,925)	(97,911)
Gains on valuation of security investment	109,071	(8,279)	100,792
Defined benefit liabilities	319,467	-	319,467
Accrued expenses	273,092	-	273,092
Retirement insurance expense	-	(283,771)	(283,771)
Adjustments to the prepaid contributions	-	(15,142)	(15,142)
Derivative-linked securities	30,102	(42,825)	(12,723)
Others	365,616	(195,856)	169,760
	1,283,268	(1,253,126)	30,142
Offsetting of deferred income tax assets and liabilities	(1,149,644)	1,149,644	-
	₩ 133,624	₩ (103,482)	₩ 30,142

(In millions of Korean won)

	2015		
	Assets	Liabilities	Net amount
Other provisions	₩ 108,700	₩ -	₩ 108,700
Allowances for loan losses	1,301	-	1,301
Impairment losses on property and equipment	5,197	(358)	4,839
Interest on equity index-linked deposits	69	-	69
Share-based payments	10,870	-	10,870
Provisions for guarantees	38,225	-	38,225
Losses(gains) from valuation on derivative financial instruments	28,736	(31,214)	(2,478)
Present value discount	11,290	(9,133)	2,157
Losses(gains) from fair value hedged item	2,876	-	2,876
Accrued interest	-	(81,893)	(81,893)
Deferred loan origination fees and costs	5,851	(152,390)	(146,539)
Gains from revaluation	-	(274,947)	(274,947)
Investments in subsidiaries and others	8,543	(96,188)	(87,645)
Gains on valuation of security investment	72,309	(21,388)	50,921
Defined benefit liabilities	279,192	-	279,192
Accrued expenses	65,690	-	65,690
Retirement insurance expense	-	(241,538)	(241,538)
Adjustments to the prepaid contributions	-	(21,938)	(21,938)
Derivative-linked securities	747,844	(779,751)	(31,907)
Others	250,275	(97,100)	153,175
	1,636,968	(1,807,838)	(170,870)
Offsetting of deferred income tax assets and liabilities	(1,628,595)	1,628,595	-
	₩ 8,373	₩ (179,243)	₩ (170,870)

Unrecognized deferred income tax assets

No deferred income tax assets have been recognized for the deductible temporary difference of ₩774,259 million associated with investments in subsidiaries and others 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 ₩119,334 million associated with SPE repurchase and others, respectively, as of December 31, 2016, due to the uncertainty that these will be realized in the future.

No deferred income tax assets have been recognized for deductible temporary differences of ₩80,204 million and ₩119,334 million associated with SPE repurchase and others, respectively, as of December 31, 2016, due to the uncertainty that these will be realized in the future.

Unrecognized deferred income tax liabilities

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩17,205 million associated with investment 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 as of December 31, 2016, for the taxable temporary difference of ₩ 65,288 million arising from the initial recognition of goodwill from the merger of Housing and Commercial Bank in 2001.

The 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(gains) from fair value hedged item	₩ 11,882	₩ 11,882	₩ -	-
Other provisions	449,239	466,913	398,537	380,863
Allowances for loan losses	5,079	26,492	51,567	30,154
Impairment losses on property and equipment	21,476	31,914	43,164	32,726
Deferred loan origination fees and costs	23,491	24,937	6,600	5,154
Interest on equity index-linked deposits	287	287	168	168
Share-based payments	44,922	39,600	51,328	56,650
Provisions for guarantees	157,954	157,954	126,319	126,319
Gains(losses) from valuation on derivative financial instruments	118,745	180,332	101,921	40,334
Present value discount	42,288	14,693	19,366	46,961
Loss on SPE repurchase	80,204	-	-	80,204
Investments in subsidiaries and others	821,059	59,354	49,014	810,719
Gains on valuation of security investment	298,796	394,580	543,172	447,388
Defined benefit liabilities	1,153,686	75,269	241,718	1,320,135
Accrued expenses	271,463	358,583	1,215,612	1,128,492
Derivative linked securities	3,090,264	3,098,449	132,573	124,388
Others	1,220,133	557,068	739,581	1,402,646
	7,810,968	₩ 5,498,307	₩ 3,720,640	6,033,301
Unrecognized deferred income tax assets:				
Other provisions	67			-
Loss on SPE repurchase	80,204			80,204
Investments in subsidiaries and others	797,862			774,259
Others	170,214			119,334
	6,762,621			5,059,504
Tax rate (%)	24.2			24.2
Total deferred income tax assets from deductible temporary differences	₩ 1,636,968			₩ 1,283,268
Taxable temporary differences				
Losses(gains) from fair value hedged item	₩ -	₩ -	₩ (59,235)	₩ (59,235)
Accrued interest	(338,402)	(333,121)	(344,618)	(349,899)
Impairment losses on property and equipment	(1,481)	-	-	(1,481)
Deferred loan origination fees and costs	(629,161)	(649,107)	(680,891)	(660,945)
Gains(losses) from valuation on derivative financial instruments	(128,985)	(457,371)	(521,629)	(193,243)

(In millions of Korean won)

	2016			
	Beginning	Decrease	Increase	Ending
Present value discount	(37,741)	(38,009)	(25,722)	(25,454)
Goodwill	(65,288)	-	-	(65,288)
Gains on revaluation	(1,136,143)	(61,094)	(107,261)	(1,182,310)
Investments in subsidiaries and others	(408,490)	(68,158)	(46,935)	(387,267)
Gains on valuation of security investment	(93,510)	(114,227)	(57,969)	(37,252)
Retirement insurance expense	(996,448)	(63,979)	(238,045)	(1,170,514)
Adjustments to the prepaid contributions	(90,653)	(90,653)	(62,569)	(62,569)
Derivative linked securities	(3,222,110)	(3,401,273)	(356,125)	(176,962)
Others	(426,328)	(663,284)	(1,031,097)	(794,141)
	(7,574,740) ₩	(5,940,276) ₩	(3,532,096)	(5,166,560)
Unrecognized deferred income tax assets:				
Goodwill	(65,288)			(65,288)
Investments in subsidiaries and others	(66,345)			(17,205)
Others	(1,914)			(906)
	(7,441,193)			(5,083,161)
Tax rate (%)	24.2			24.2
Total deferred income tax assets from deductible temporary differences	₩ (1,807,838)			₩ (1,253,126)

(In millions of Korean won)

	2015			
	Beginning	Decrease	Increase	Ending
Deductible temporary differences				
Losses(gains) from fair value hedged item	₩ 53,033	₩ 53,033	₩ 11,882	₩ 11,882
Other provisions	410,564	385,987	424,662	449,239
Allowances for loan losses	6,133	5,751	4,697	5,079
Impairment losses on property and equipment	22,363	22,363	21,476	21,476
Deferred loan origination fees and costs	37,373	37,373	23,491	23,491
Interest on equity index-linked deposits	758	758	287	287
Share-based payments	42,749	35,167	37,340	44,922
Provisions for guarantees	225,414	225,414	157,954	157,954
Gains(losses) from valuation on derivative financial instruments	15,171	15,171	118,745	118,745
Present value discount	11,762	11,762	42,288	42,288
Loss on SPE repurchase	80,204	-	-	80,204
Investments in subsidiaries and others	864,496	72,716	29,279	821,059
Gains on valuation of security investment	259,171	259,171	298,796	298,796
Defined benefit liabilities	1,036,168	103,160	220,678	1,153,686
Accrued expenses	214,733	205,452	262,182	271,463
Derivative linked securities	1,388,534	1,388,534	3,090,264	3,090,264

(In millions of Korean won)

	2015			
	Beginning	Decrease	Increase	Ending
Others	1,537,024	662,060	345,169	1,220,133
	6,205,650	₩ 3,483,872	₩ 5,089,190	7,810,968
Unrecognized deferred income tax assets:				
Other provisions	199			67
Loss on SPE repurchase	80,204			80,204
Investments in subsidiaries and others	776,596			797,862
Others	172,199			170,214
	5,176,452			6,762,621
Tax rate (%)	24.2			24.2
Total deferred income tax assets from deductible temporary differences	₩ 1,251,855			₩ 1,636,968
Taxable temporary differences				
Accrued interest	₩ (329,039)	₩ (180,430)	₩ (189,793)	₩ (338,402)
Allowances for loans losses	(7,850)	(7,850)	-	-
Impairment losses on property and equipment	(1,481)	-	-	(1,481)
Deferred loan origination fees and costs	(548,978)	(548,978)	(629,161)	(629,161)
Gains(losses) from valuation on derivative financial instruments	(217,826)	(217,245)	(128,404)	(128,985)
Present value discount	(44,190)	(9,600)	(3,151)	(37,741)
Goodwill	(65,288)	-	-	(65,288)
Gains on revaluation	(1,136,143)	-	-	(1,136,143)
Investments in subsidiaries and others	(322,693)	(21)	(85,818)	(408,490)
Gains on valuation of security investment	(126,465)	(49,708)	(16,753)	(93,510)
Retirement insurance expense	(907,512)	(102,619)	(191,555)	(996,448)
Adjustments to the prepaid contributions	(114,107)	(114,107)	(90,653)	(90,653)
Derivative linked securities	(1,399,118)	(1,399,118)	(3,222,110)	(3,222,110)
Others	(353,745)	(172,323)	(244,906)	(426,328)
	(5,574,435)	₩ (2,801,999)	₩ (4,802,304)	(7,574,740)
Unrecognized deferred income tax assets:				
Goodwill	(65,288)			(65,288)
Investments in subsidiaries and others	(27,367)			(66,345)
Others	-			(1,914)
	(5,481,780)			(7,441,193)
Tax rate (%)	24.2			24.2
Total deferred income tax assets from deductible temporary differences	₩ (1,329,504)			₩ (1,807,838)

17. 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	Carrying amount	Fair value less costs to sell
Land held for sale	₩ 31,310	₩ (8,179)	₩ 23,131	₩ 24,704
Buildings held for sale	50,086	(21,069)	29,017	29,300
	₩ 81,396	₩ (29,248)	₩ 52,148	₩ 54,004

(In millions of Korean won)

	2015			
	Acquisition cost ¹	Accumulated impairment	Carrying amount	Fair value less costs to sell
Land held for sale	₩ 35,997	₩ (8,531)	₩ 27,466	₩ 28,659
Buildings held for sale	37,115	(15,953)	21,162	21,621
	₩ 73,112	₩ (24,484)	₩ 48,628	₩ 50,280

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, 2016, are as follows:

(In millions of Korean won)

	2016				
	Fair value	Valuation technique ¹	Unobservable input ²	Range of unobservable inputs (%)	Relationship of unobservable inputs to fair value
Land and buildings	₩ 28,700	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 index rises.
	14,831	Market comparison approach model	Unit price per area of exclusive possession, Time point adjustment, Individual factor and others	Unit price per area of exclusive possession: About ₩ 4.9 million Time point adjustment: 0.9987 Individual factor: 0.85	Fair value increases as the unit price per area of exclusive possession and others rise.
10,790	Market comparison approach model	Unit price per area of exclusive possession, Time point adjustment, Individual factor and others	Unit price per area of exclusive possession: About ₩ 7.8 million Time point adjustment: 1.00212 Individual factor: 0.176~0.585	Fair value increases as the unit price per area of exclusive possession and others rise.	
	₩ 54,321				

¹ The Group adjusted the appraisal value by the adjustment ratio in the event the public sale is unsuccessful.

² Adjustment index is calculated using the real estate index or the producer price index, or land price volatility.

The fair values of assets held for sale were measured by qualified independent appraisers with experience in valuing similar properties in the same area. In addition, per the fair value hierarchy on Note 6.1, the fair value hierarchy of all investment properties has been categorized and classified as Level 3.

The changes in accumulated impairment losses of assets held for sale for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

2016				
Beginning	Provision	Reversal	Others	Ending
₩ (24,484) ₩	(5,269) ₩	96 ₩	409 ₩	(29,248)

(In millions of Korean won)

2015				
Beginning	Provision	Reversal	Others	Ending
₩ (34,066) ₩	(2,110) ₩	399 ₩	11,293 ₩	(24,484)

As of December 31, 2016, buildings and land classified as assets held for sale consist of 10 pieces of real estate of closed branches and KB Wellyan Private Equity Real Estate Fund No. 6 and 7, which were acquired from the litigation of KB Asset Management Co., Ltd. and 3 pieces of real estate of Hyundai Savings Bank. The management of the Group decided to sell the assets, and accordingly, the assets were classified as assets held for sale. As of December 31, 2015, five assets out of above assets held for sale are under negotiation for sale and the remaining assets are also being actively marketed.

18. 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	₩ 4,326,183	₩ 3,652,481
Accrued income	1,305,680	1,163,368
Guarantee deposits	1,230,400	1,204,474
Domestic exchange settlement debits	535,237	2,145,654
Others	25,226	52,258
Less: Allowances for loan losses	(95,629)	(308,699)
Less: Present value discount	(4,762)	(1,596)
	7,322,335	7,907,940
Other non-financial assets		
Other receivables	17,727	5,238
Prepaid expenses	188,135	280,563
Guarantee deposits	3,934	4,232
Insurance assets	128,146	112,489
Separate account assets	866,310	852,648
Others	356,380	236,571
Less: Allowances on other asset	(25,182)	(23,977)
	1,535,450	1,467,764
	₩ 8,857,785	₩ 9,375,704

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	₩ 308,699	₩ 23,977	₩ 332,676
Written-off	(271,522)	(540)	(272,062)
Provision	2,445	1,745	4,190
Business combination	13,537	-	13,537
Others	42,470	-	42,470
Ending	₩ 95,629	₩ 25,182	₩ 120,811

(In millions of Korean won)

	2015		
	Other financial assets	Other non-financial assets	Total
Beginning	₩ 347,918	₩ 23,294	₩ 371,212
Written-off	(48,286)	(884)	(49,170)
Provision	6,083	1,567	7,650
Others	2,984	-	2,984
Ending	₩ 308,699	₩ 23,977	₩ 332,676

19. Financial Liabilities at Fair Value through Profit or Loss

Details of financial liabilities at fair value through profit or loss as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016	2015
Financial liabilities held for trading		
Securities sold	₩ 1,070,272	₩ 517,458
Other	73,238	69,465
	1,143,510	586,923
Financial liabilities designated at fair value through profit or loss		
Derivative-linked securities	10,979,326	2,387,681
Total financial liabilities at fair value through profit or loss	₩ 12,122,836	₩ 2,974,604

The details of credit risk of financial liabilities designated at fair value through profit or loss as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
Financial liabilities designated at fair value through profit or loss	₩	10,979,326	₩	2,387,681
Changes in fair value resulting from changes in the credit risk		12,131		(15,602)
Accumulated changes in fair value resulting from changes in the credit risk		(17,981)		(30,112)

20. 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	₩	104,758,222	₩	91,678,321
Demand deposits in foreign currencies		5,305,313		4,147,646
		110,063,535		95,825,967
Time deposits				
Time deposits in Korean won		122,532,476		120,225,483
Fair value adjustments on valuation of fair value hedged items		-		(201)
		122,532,476		120,225,282
Time deposits in foreign currencies		4,314,783		3,623,160
Fair value adjustments on valuation of fair value hedged items		(61,657)		(17,671)
		4,253,126		3,605,489
		126,785,602		123,830,771
Certificates of deposits		2,880,558		4,611,447
Total deposits	₩	239,729,695	₩	224,268,185

21. Debts

Details of debts as of December 31, 2016 and 2015, consist of:

(In millions of Korean won)

	2016		2015	
Borrowings	₩	14,485,789	₩	12,304,226
Repurchase agreements and others		8,825,564		1,845,611
Call money		2,940,133		2,090,906
	₩	26,251,486	₩	16,240,743

Details of borrowings as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

		Lender	Annual interest rate (%)		2016		2015
Borrowings in Korean won	Borrowings from the	Bank of Korea	0.50~0.75	₩	1,644,260	₩	1,421,375
	Bank of Korea						
	Borrowings from	Korea Energy	0.00~3.00		1,331,688		1,156,670
	the government	Agency and others					
	Borrowings from	Industrial Bank	-		-		180
	banking institutions	of Korea					
	Borrowings from	The Korea	0.20~2.70		889,433		374,369
non-banking	Development						
financial institutions	Bank and others						
Other borrowings	Korea Gas Safety	0.00~7.50		4,284,108		3,360,593	
		Corporation and					
		others					
					8,149,489		6,313,187
Borrowings in foreign currencies	Due to banks	JP Morgan Chase	-		70,624		9,884
		Bank and Others					
	Borrowings from	Mizuho Bank	0.00~3.18		3,949,376		3,530,562
	banking institutions	and Others					
	Other borrowings from	The Export-Import	1.35~2.25		121,104		212,507
financial institutions	Bank of Korea and						
	others						
Other borrowings	Standard Chartered	0.00~5.10		2,195,196		2,238,086	
	Bank and others						
					6,336,300		5,991,039
				₩	14,485,789	₩	12,304,226

The details of repurchase agreements and others as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	Lender	Annual interest rate (%)		2016		2015
Repurchase agreements	Individuals, Groups and Corporations	0.00~2.44	₩	8,815,027	₩	1,817,754
Bills sold	Counter sale	0.40~1.00		10,537		27,857
			₩	8,825,564	₩	1,845,611

The details of call money as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	Lender	Annual interest rate (%)		2016		2015
Call money in Korean won	KEB Hana bank and others	1.08~1.92	₩	1,755,200	₩	1,006,400
Call money in foreign	Central bank Uzbekistan					
currencies	and others	0.08~3.30		1,184,933		1,084,506
			₩	2,940,133	₩	2,090,906

22. 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	₩	1,146,300	₩	909,788
Subordinated fixed rate debentures in Korean won	3.08~5.70		3,271,693		4,586,829
Fixed rate debentures in Korean won	1.29~5.30		25,627,695		22,500,223
Floating rate debentures in Korean won	1.36~2.25		1,108,000		448,000
			31,153,688		28,444,840
Fair value adjustments on fair value hedged financial debentures in Korean won					
			26,724		40,171
Less: Discount on debentures in Korean won					
			(19,064)		(17,740)
			31,161,348		28,467,271
Debentures in foreign currencies					
Floating rate debentures	1.44~1.76		1,063,480		1,829,124
Fixed rate debentures	1.38~3.63		2,803,720		2,325,537
			3,867,200		4,154,661
Fair value adjustments on fair value hedged debentures in foreign currencies					
			(24,302)		(10,416)
Less: Discount or premium on debentures in foreign currencies					
			(12,189)		(10,913)
			3,830,709		4,133,332
		₩	34,992,057	₩	32,600,603

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	Business combination	Others	Ending
Debentures in Korean won						
Structured debentures	₩ 909,788	₩ 892,100	₩ (1,540,488)	₩ 884,900	₩ -	₩ 1,146,300
Subordinated fixed rate debentures in Korean won	4,586,829	-	(1,314,836)	-	(300)	3,271,693
Fixed rate debentures in Korean won	22,500,223	96,455,800	(93,898,928)	570,600	-	25,627,695
Floating rate debentures in Korean won	448,000	760,000	(100,000)	-	-	1,108,000
	28,444,840	98,107,900	(96,854,252)	1,455,500	(300)	31,153,688
Debentures in foreign currencies						
Floating rate debentures	1,829,124	35,595	(806,459)	-	5,220	1,063,480
Fixed rate debentures	2,325,537	1,185,480	(817,096)	-	109,799	2,803,720
	4,154,661	1,221,075	(1,623,555)	-	115,019	3,867,200
	₩ 32,599,501	₩ 99,328,975	₩ (98,477,807)	₩ 1,455,500	₩ 114,719	₩ 35,020,888

(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 in Korean won	4,761,124	-	(174,295)	-	4,586,829
Fixed rate debentures in Korean won	18,839,553	78,939,000	(75,278,330)	-	22,500,223
Floating rate debentures in Korean won	1,133,000	30,000	(715,000)	-	448,000
	25,972,915	79,089,000	(76,617,075)	-	28,444,840
Debentures in foreign currencies					
Floating rate debentures	1,648,175	179,565	(111,939)	113,323	1,829,124
Fixed rate debentures	1,578,980	1,013,959	(378,577)	111,175	2,325,537
	3,227,155	1,193,524	(490,516)	224,498	4,154,661
	₩ 29,200,070	₩ 80,282,524	₩ (77,107,591)	₩ 224,498	₩ 32,599,501

23. 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	₩	189,349	₩
Provisions for payment guarantees		126,428		158,454
Provisions for financial guarantee contracts		4,333		3,809
Provisions for restoration cost		84,854		75,351
Others		132,753		174,861
	₩	537,717	₩	607,860

Changes in provisions for unused loan commitments, payment 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 payment guarantees	Total
Beginning	₩ 195,385	₩ 158,454	₩ 353,839
Effects of changes in foreign exchange rate	204	737	941
Provision(reversal)	(6,240)	(32,763)	(39,003)
Ending	₩ 189,349	₩ 126,428	₩ 315,777

(In millions of Korean won)

	2015					
	Provisions for unused loan commitments		Provisions for payment guarantees		Total	
Beginning	₩	209,964	₩	207,927	₩	417,891
Effects of changes in foreign exchange rate		788		4,809		5,597
Provision(reversal)		(15,367)		(54,282)		(69,649)
Ending	₩	195,385	₩	158,454	₩	353,839

Changes in provisions for financial guarantee contracts for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
Beginning	₩	3,809	₩	2,718
Provision (Reversal)		(2,958)		1,091
Business combination		3,482		-
Ending	₩	4,333	₩	3,809

Changes in provisions for restoration cost for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
Beginning	₩	75,351	₩	73,442
Provision		3,886		3,916
Reversal		(967)		(537)
Used		(5,940)		(4,207)
Unwinding of discount		1,890		2,042
Effects of changes in discount rate		6,941		695
Business combination		3,693		-
Ending	₩	84,854	₩	75,351

Provisions for restoration cost are the present value of estimated costs to be incurred for the 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 period. 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	Greenhouse gas emission liabilities ¹	Others	Total
Beginning	₩ 8,630	₩ 41,091	₩ 71,240	₩ 69	₩ 53,831	₩ 174,861
Increase	26,336	32,464	1,589	434	9,007	69,830
Decrease	(26,176)	(23,159)	(52,206)	(145)	(10,252)	(111,938)
Ending	₩ 8,790	₩ 50,396	₩ 20,623	₩ 358	₩ 52,586	₩ 132,753

(In millions of Korean won)

	2015					
	Membership rewards program	Dormant accounts	Litigations	Greenhouse gas emission liabilities ¹	Others	Total
Beginning	₩ 11,274	₩ 33,996	₩ 24,506	₩ -	₩ 50,520	₩ 120,296
Increase	22,304	27,056	57,691	69	49,905	157,025
Decrease	(24,948)	(19,961)	(10,957)	-	(46,594)	(102,460)
Ending	₩ 8,630	₩ 41,091	₩ 71,240	₩ 69	₩ 53,831	₩ 174,861

¹ As of December 31, 2016 and 2015, the estimated greenhouse gas emission is 117,831 tons 122,542 tons, respectively.

24. 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 defined benefit liability recognized in the statements of financial position is calculated by independent actuaries in accordance with actuarial valuation methods.

The net defined benefit obligation is calculated using the Projected Unit Credit method (the 'PUC'). Data used in the PUC such as interest rates, future salary increase rate, mortality rate and consumer price index are based on observable market data and historical data which are updated annually.

Actuarial assumptions may differ from actual results, due to changes in the market, economic trends and mortality trends which may impact defined benefit liabilities and future payments. Actuarial gains and losses arising from changes in actuarial assumptions are recognized in the period incurred through other comprehensive income.

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	₩ 1,413,600	₩ (1,340,403)	₩ 73,197
Current service cost	192,010	-	192,010
Interest cost	34,885	(33,211)	1,674
Past service cost	4,408	-	4,408
Gain or loss on settlement	(396)	-	(396)
Remeasurements:			
Actuarial gains and losses by changes in demographic assumptions	2,281	-	2,281
Actuarial gains and losses by changes in financial assumptions	(37,085)	-	(37,085)
Actuarial gains and losses by experience adjustments	7,017	-	7,017

(In millions of Korean won)

	2016		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities
Return on plan assets (excluding amounts included in interest income)	-	11,071	11,071
Contributions:			
Employers	-	(162,547)	(162,547)
Employees	-	(3,106)	(3,106)
Payments from plans (benefit payments)	(52,508)	52,508	-
Payments from the Group	(9,837)	-	(9,837)
Transfer in	4,408	(4,325)	83
Transfer out	(4,897)	4,880	(17)
Effect of exchange rate changes	18	-	18
Effect of business combination and disposal of business	22,099	(4,571)	17,528
Ending	₩ 1,576,003	₩ (1,479,704)	₩ 96,299

(In millions of Korean won)

	2015		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities
Beginning	₩ 1,271,078	₩ (1,195,394)	₩ 75,684
Current service cost	185,710	-	185,710
Interest cost(income)	37,742	(35,523)	2,219
Past service cost	(47)	-	(47)
Remeasurements:			
Actuarial gains and losses by changes in demographic assumptions	(5,270)	-	(5,270)
Actuarial gains and losses by changes in financial assumptions	8,864	-	8,864
Actuarial gains and losses by experience adjustments	14,573	-	14,573
Return on plan assets (excluding amounts included in interest income)	-	12,051	12,051
Contributions	-	(214,792)	(214,792)
Payments from plans (benefit payments)	(93,112)	93,112	-
Payments from the Group	(5,973)	-	(5,973)
Transfer in	5,950	(5,819)	131
Transfer out	(5,968)	5,962	(6)
Effect of exchange rate changes	22	-	22
Others	31	-	31
Ending	₩ 1,413,600	₩ (1,340,403)	₩ 73,197

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	₩	1,576,003	₩	1,413,600
Fair value of plan assets		(1,479,704)		(1,340,403)
Net defined benefit liabilities	₩	96,299	₩	73,197

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	₩	192,010	₩	185,710
Past service cost		4,408		(47)
Net interest expenses of net defined benefit liabilities		1,674		2,219
Gain or loss on settlement		(396)		-
Post-employment benefits ¹	₩	197,696	₩	187,882

¹ Post-employment benefits amounting to ₩ 1,577 million and ₩ 1,143 million for the years ended December 31, 2016 and 2015, respectively, are recognized as other operating expense in the statements of comprehensive income.

Remeasurements of the 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:				
Return on plan assets (excluding amounts included in interest income)	₩	(11,071)	₩	(12,051)
Actuarial gains and losses		27,787		(18,167)
Income tax effects		(4,045)		7,312
Remeasurements after income tax	₩	12,671	₩	(22,906)

The 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
Cash and due from financial institutions	₩ -	₩ 1,479,419	₩ 1,479,419
Investment fund	-	285	285
Ending	₩ -	₩ 1,479,704	₩ 1,479,704

(In millions of Korean won)

	2015				
	Assets quoted in an active market		Assets not quoted in an active market		Total
Cash and due from financial institutions	₩	- ₩	1,340,403 ₩		1,340,403
	₩	- ₩	1,340,403 ₩		1,340,403

Key actuarial assumptions used as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016	2015
Discount rate (%)	1.80 ~ 3.46	1.90 ~ 2.50
Salary increase rate (%)	0.00 ~ 7.50	0.00 ~ 7.50
Turnover (%)	0.00 ~ 29.00	0.00 ~ 27.00

Mortality assumptions are based on the experience-based mortality table of Korea Insurance Development Institute of 2015.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions as of December 31, 2016, are as follows:

(In millions of Korean won)

	Changes in principal assumption	Effect on net defined benefit obligation	
		Increase in principal assumption	Decrease in principal assumption
Discount rate (%)	0.5 p.	3.96 decrease	4.24 increase
Salary increase rate (%)	0.5 p.	3.95 increase	3.72 decrease
Turnover (%)	0.5 p.	0.33 decrease	0.34 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 changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the statement of financial position.

Expected maturity analysis of undiscounted pension benefits(including expected future benefit) as of December 31, 2016, is as follows:

(In millions of Korean won)

	Up to 1 year	1~2 years	2~5 years	5~10 years	Over 10 years	Total
Pension benefits ¹	₩ 192,077 ₩	₩ 132,969 ₩	₩ 415,890 ₩	₩ 879,521 ₩	₩ 2,762,385 ₩	₩ 4,382,842 ₩

¹ Excluded payments settled according to pension equity plan.

The weighted average duration of the defined benefit obligation is 1.0 ~ 11.3 years.

Expected contribution to plan assets for periods after December 31, 2016, is estimated to be ₩170,307 million.

25. 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	₩	6,526,330	₩	5,156,880
Prepaid card and debit card		19,076		18,233
Accrued expenses		2,613,445		2,718,654
Financial guarantee liabilities		26,449		12,446
Deposits for letter of guarantees and others		561,664		501,188
Domestic exchange settlement credits		1,338,103		127,562
Foreign exchanges settlement credits		116,226		53,367
Borrowings from other business accounts		5,204		47,707
Other payables from trust accounts		4,430,508		2,791,404
Liability incurred from agency relationships		386,670		488,325
Account for agency businesses		248,257		321,557
Dividend payables		475		476
Other payables from factored receivables		-		40,178
Others		14,171		636
		16,286,578		12,278,613
Other non-financial liabilities				
Other payables		842,902		80,167
Unearned revenue		226,096		146,798
Accrued expenses		395,933		257,817
Deferred revenue on credit card points		145,457		123,615
Withholding taxes		140,258		115,092
Insurance liabilities		7,290,844		6,924,699
Separate account liabilities		875,015		860,946
Others		126,658		73,887
		10,043,163		8,583,021
	₩	26,329,741	₩	20,861,634

26. Equity

26.1 Share Capital

Details of share capital and number of issued shares of the Parent Company as of December 31, 2016 and 2015, are as follows:

	Ordinary share			
	2016		2015	
Type of share				
Number of authorized shares		1,000,000,000		1,000,000,000
Par value per share	₩	5,000	₩	5,000
Number of issued shares		418,111,537		386,351,693
Share capital ¹	₩	2,090,558	₩	1,931,758

¹ In millions of Korean won.

Changes in outstanding shares for the years ended December 31, 2016 and 2015, are as follows:

(In number of shares)

	2016	2015
Beginning	386,351,693	386,351,693
Increase	31,759,844	-
Decrease	(19,826,100)	-
Ending	398,285,437	386,351,693

26.2 Capital Surplus

Details of capital surplus as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016	2015
Share premium	₩ 13,190,274	₩ 12,226,596
Loss on sales of treasury shares	(568,544)	(568,544)
Other capital surplus	4,373,172	4,196,458
	₩ 16,994,902	₩ 15,854,510

26.3 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	₩ (121,055)	₩ (133,876)
Exchange differences on translating foreign operations	53,138	32,990
Change in value of available-for-sale financial assets	601,620	653,130
Change in value of held-to-maturity financial assets	6,447	2,731
Shares of other comprehensive income of associates	(96,174)	(89,081)
Cash flow hedges	(6,075)	(10,173)
Hedges of a net investment in a foreign operation	(32,572)	(25,477)
	₩ 405,329	₩ 430,244

26.4 Retained Earnings

Details of retained earnings as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016	2015
Legal reserves ¹	₩ 275,860	₩ 251,517
Voluntary reserves	982,000	982,000
Unappropriated retained earnings	10,971,368	9,230,592
	₩ 12,229,228	₩ 10,464,109

¹ With respect to the allocation of net profit earned in a fiscal term, the Parent Company 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 share capital in accordance with Article 53 of the Financial Holding Company Act. The reserve is not available for the payment of cash dividends, but may be transferred to share capital, or used to reduce accumulated deficit.

Regulatory reserve for credit losses

Measurement and disclosure of regulatory reserve for credit losses are required in accordance with Articles 26 through 28 of Supervisory Regulations on Financial Holding Companies.

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	
Regulatory reserve for credit losses attributable to:				
Shareholders of the Parent Company	₩	2,670,478	₩	2,454,463
Non-controlling interests		34,650		28,468
	₩	2,705,128	₩	2,482,931

The 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, except earnings per share)

	2016		2015	
Provision(Reversal) of regulatory reserve for credit losses ¹	₩	195,890	₩	(1,889)
Adjusted profit after provision of regulatory reserve for credit losses ²		1,947,854		1,700,207
Adjusted basic earnings per share after provision of regulatory reserve for credit losses ²		5,078		4,401
Adjusted diluted earnings per share after provision of regulatory reserve for credit losses ²		5,051		4,381

¹ Excluding the ₩ 20,215 million increase in regulatory reserve for the year ended December 31, 2016 for credit losses due to the business combination of Hyundai Securities Co., Ltd..

² Adjusted profit after provision of regulatory reserve for credit losses is not in accordance with Korean IFRS, and calculated with the assumption that provision (reversal) of regulatory reserve for credit losses before income tax is adjusted to the profit.

26.5 Treasury Shares

Changes in treasury shares outstanding for the year ended December 31, 2016, are as follows:

(In number of shares and millions of Korean won)

	2016			
	Beginning	Acquisition	Disposal	Ending
Number of treasury shares ¹	-	19,826,100	-	19,826,100
Carrying amount ¹	₩ -	₩ 721,973	₩ -	₩ 721,973

¹ The Group has entered into a trust agreement with Samsung Securities Co., Ltd. to acquire treasury shares amounting to ₩ 800,000 million in order to enhance shareholder value.

27. Net Interest Income

Details of interest income and interest expense 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	₩ 111,433	₩ 151,681
Loans	8,905,769	9,102,433
Financial investments		
Available-for-sale financial assets	426,762	497,476
Held-to-maturity financial assets	463,200	491,429
Others	114,718	132,804
	10,021,882	10,375,823
Interest expenses		
Deposits	2,476,579	3,035,425
Debts	229,475	195,021
Debentures	853,430	866,801
Others	59,869	75,377
	3,619,353	4,172,624
Net interest income	₩ 6,402,529	₩ 6,203,199

Interest income recognized on impaired loans is ₩ 60,212 million (2015: ₩ 73,290 million) for the year ended December 31, 2016. Interest income recognized on impaired financial investments is ₩ 226 million (2015: ₩ 235 million) for the year ended December 31, 2016.

28. 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	₩ 176,968	₩ 168,389
Lending activity fees	79,287	87,790
Credit card related fees and commissions	1,258,704	1,223,221
Debit card related fees and commissions	369,329	340,509
Agent activity fees	172,220	168,135
Trust and other fiduciary fees	219,215	270,664
Fund management related fees	119,745	104,924
Guarantee fees	40,710	30,121
Foreign currency related fees	99,022	97,146
Commissions from transfer agent services	166,371	164,916
Other business account commission on consignment	33,707	30,525
Commissions received on securities business	154,966	88,111
Lease fees	75,737	38,403
Others	184,896	158,241
	3,150,877	2,971,095
Fee and commission expense		
Trading activity related fees ¹	15,555	11,050
Lending activity fees	15,010	20,507
Credit card related fees and commissions	1,209,553	1,093,538
Outsourcing related fees	91,700	87,875
Foreign currency related fees	17,205	12,419
Management fees of written-off loans	4,456	4,065
Others	212,506	206,658
	1,565,985	1,436,112
Net fee and commission income	₩ 1,584,892	₩ 1,534,983

29. Net Gains or Losses on Financial Assets/Liabilities at Fair Value Through Profit or Loss

29.1 Net Gains or Losses on Financial Instruments Held for Trading

Net gain or loss from financial instruments held for trading includes interest income, dividend income and gains or losses arising from changes in the fair values, sales and redemptions. Details of net gain or loss from financial instruments held for trading for the years ended December 31, 2016 and 2015, are as follows:

	(In millions of Korean won)	
	2016	2015
Gains related to financial instruments held for trading		
Financial assets held for trading		
Debt securities	₩ 457,570	₩ 376,738
Equity securities	120,289	62,326
	577,859	439,064
Derivatives held for trading		
Interest rate	1,162,058	1,007,933
Currency	3,751,706	2,326,371
Stock or stock index	899,185	179,570
Credit	52,988	25,402
Commodity	4,284	1,279
Other	4,808	1,752
	5,875,029	3,542,307
Financial liabilities held for trading	100,246	69,844
Other financial instruments	238	2,167
	₩ 6,553,372	₩ 4,053,382
Losses related to financial instruments held for trading		
Financial assets held for trading		
Debt securities	₩ 265,760	₩ 65,939
Equity securities	114,052	44,699
	379,812	110,638
Derivatives held for trading		
Interest rate	1,164,423	1,036,573
Currency	3,827,928	2,224,261
Stock or stock index	658,832	269,401
Credit	46,251	21,974
Commodity	3,545	1,127
Other	1,291	339
	5,702,270	3,553,675
Financial liabilities held for trading	99,024	131,125
Other financial instruments	173	2,214
	6,181,279	3,797,652
Net gains or losses on financial instruments held for trading	₩ 372,093	₩ 255,730

¹ The fees from financial assets/liabilities at fair value through profit or loss.

29.2 Net Gains or Losses on Financial Instruments Designated at Fair Value Through Profit or Loss

Net gain or loss from financial instruments designated at fair value through profit or loss includes interest income, dividend income and gains or losses arising from changes in the fair values, sales and redemptions. Details of net gain or loss from financial instruments designated at fair value through profit or loss for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016	2015
Gains related to financial instruments designated at fair value through profit or loss		
Financial assets designated at fair value through profit or loss	₩ 118,721	₩ 46,051
Financial liabilities designated at fair value through profit or loss	91,357	188,392
	210,078	234,443
Losses related to financial instruments designated at fair value through profit or loss		
Financial assets designated at fair value through profit or loss	8,447	42,690
Financial liabilities designated at fair value through profit or loss	582,492	87,756
	590,939	130,446
Net gains or losses on financial instruments designated at fair value through profit or loss	₩ (380,861)	₩ 103,997

30. 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		
Gain on redemption of available-for-sale financial assets	₩ 226	₩ 312
Gain on sale of available-for-sale financial assets	236,344	404,144
Reversal for impairment on available-for-sale financial assets	328	265
	236,898	404,721
Gain on foreign exchange transactions	3,567,560	2,464,723
Income related to insurance	1,201,352	1,373,373
Dividend income	134,989	96,829
Others	278,827	258,888
	5,419,626	4,598,534
Other operating expenses		
Expense related to available-for-sale financial assets		
Loss on redemption of available-for-sale financial assets	-	114
Loss on sale of available-for-sale financial assets	44,360	10,108
Impairment on available-for-sale financial assets	35,216	227,588
	79,576	237,810
Loss on foreign exchanges transactions	3,303,205	2,406,683
Expense related to insurance	1,319,155	1,478,987
Others	1,251,401	1,191,014
	5,953,337	5,314,494
Net other operating expenses	₩ (533,711)	₩ (715,960)

31. General and Administrative Expenses

31.1 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	₩ 1,874,396	₩ 1,764,459
Salaries and short-term employee benefits - others	734,119	755,829
Post-employment benefits - defined benefit plans	196,119	186,739
Post-employment benefits - defined contribution plans	9,361	10,262
Termination benefits	903,435	391,549
Share-based payments	38,190	17,429
	3,755,620	3,126,267
Depreciation and amortization	288,620	257,306
Other general and administrative expenses		
Rental expense	280,888	273,531
Tax and dues	134,892	142,272
Communication	37,114	37,136
Electricity and utilities	29,921	28,752
Publication	17,300	18,337
Repairs and maintenance	15,722	15,777
Vehicle	9,624	10,291
Travel	8,059	6,784
Training	23,426	23,544
Service fees	129,032	115,919
Electronic data processing expenses	160,863	163,160
Advertising	142,186	124,546
Others	195,444	179,962
	1,184,471	1,140,011
	₩ 5,228,711	₩ 4,523,584

31.2 Share-based Payments

31.2.1 Stock options

There are no stock options outstanding for the year ended December 31, 2016. Changes in the number of granted stock options and the weighted average exercise price for year ended December 31, 2016, were as follows:

(In millions of Korean won)

	2015					
	Number of granted stock			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	₩ -	₩ -		

There is no intrinsic value of the vested stock options as of December 31, 2016.

31.2.2 Stock grants

The Group changed the scheme of share-based payment from stock options to stock grants in November 2007. The stock grant award program is an incentive plan that sets, on grant date, the maximum amount of shares that can be awarded. Actual stock granted at the end of the vesting period is determined in accordance with achievement of pre-specified targets over the vesting period.

Details of stock grants linked to long-term performance as of December 31, 2016, are as follows:

(In number of shares)

	Grant date	Number of granted shares ¹	Vesting conditions
KB Financial Group Inc.			
Series 4	July 13, 2010	12,429	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,3}
Series 8	Jan. 01, 2012	13,471	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,4}
Series 9	July 17, 2013	13,209	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,4}
Series 12	Nov. 21, 2014	32,449	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,5}
Series 14	July 17, 2015	11,363	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,6}

(In number of shares)

	Grant date	Number of granted shares ¹	Vesting conditions
KB Financial Group Inc.			
Series 15	Jan. 01, 2016	71,088	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,6}
Series 16	Mar. 18, 2016	12,162	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,6}
Deferred grant in 2013	-	4,009	Satisfied
Deferred grant in 2014	-	10,572	Satisfied
Deferred grant in 2015	-	27,096	Satisfied
Deferred grant in 2016	-	13,304	Satisfied
		221,152	
Kookmin Bank			
Series 60	Jan. 01, 2015	277,205	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,7}
Series 61	Apr. 14, 2015	8,390	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,7}
Series 62	Jan. 12, 2015	16,505	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,7}
Series 64	July 24, 2015	21,153	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,7}
Series 65	Aug. 26, 2015	13,828	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,7}
Series 66	Nov. 21, 2014	28,392	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,5}
Series 67	Jan. 01, 2016	164,063	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,8}
Series 68	July 05, 2016	9,621	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,8}
Deferred grant in 2013	-	22,335	Satisfied
Deferred grant in 2014	-	70,766	Satisfied
Deferred grant in 2015	-	88,848	Satisfied
		721,106	

(In number of shares)

	Grant date	Number of granted shares ¹	Vesting conditions
Other subsidiaries and associate			
Stock granted in 2010	-	2,487	Services fulfillment, Achievement of targets on the basis of market and non-market performance ⁹
Stock granted in 2011	-	3,469	Services fulfillment, Achievement of targets on the basis of market and non-market performance ⁹
Stock granted in 2012	-	10,224	Services fulfillment, Achievement of targets on the basis of market and non-market performance ⁹
Stock granted in 2013	-	31,692	Services fulfillment, Achievement of targets on the basis of market and non-market performance ⁹
Stock granted in 2014	-	82,192	Services fulfillment, Achievement of targets on the basis of market and non-market performance ⁹
Stock granted in 2015	-	197,609	Services fulfillment, Achievement of targets on the basis of market and non-market performance ⁹
Stock granted in 2016	-	183,905	Services fulfillment, Achievement of targets on the basis of market and non-market performance ⁹
		511,578	
		1,453,836	

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 (Deferred grants are residual shares as of December 31, 2016).

² During the year, executives and employees were given the option of deferred payment of the granted shares (after the date of retirement), payment ratio, and payment period. Accordingly, a certain percentage of the granted amount is deferred for up to five years after the date of retirement after the deferred grant has been confirmed.

³ 37.5%, 37.5% and 25% of the number of granted shares to be compensated are determined upon the accomplishment of relative TSR, EPS and qualitative indicators, respectively. 30%, 30% and 40% of the number of certain granted shares to be compensated are determined upon the accomplishment of Performance Results, financial results of the Group and relative TSR, respectively. 40%, 40% and 20% of the number of certain granted shares to be compensated are determined upon the accomplishment of EPS, relative TSR and qualitative indicators, respectively.

⁴ 30%, 30% and 40% of the number of granted shares to be compensated are determined upon the accomplishment of Performance Results, financial results of the Group and relative TSR, respectively. 50% of the number of certain granted shares to be compensated is determined upon the accomplishment of Performance Results, while 50% is determined upon the accomplishment of relative TSR.

⁵ 35%, 35% and 30% of the number of granted shares to be compensated are determined upon the accomplishment of relative TSR, EPS and Asset Quality, respectively.

⁶ 40%, 30% and 30% of the number of granted shares to be compensated are determined upon the accomplishment of the Performance Results, financial results of the Group and relative TSR, respectively. 50% of the number of certain granted shares to be compensated is determined upon the accomplishment of Performance Results, while 50% is determined upon the accomplishment of relative TSR.

⁷ 30%, 40% and 30% of the number of granted shares to be compensated are determined upon the accomplishment of relative TSR, Performance Results and financial results of Kookmin Bank, respectively. 50% of the number of certain granted shares to be compensated is determined upon the accomplishment of relative TSR, while 50% is determined upon the accomplishment of Performance Results.

⁸ 30%, 40% and 30% of the number of granted shares to be compensated are determined upon the accomplishment of relative TSR, Performance Results and Evaluation of the Bank president's performance, respectively. 50% of the number of certain granted shares to be compensated is determined upon the accomplishment of relative TSR, while 50% is determined upon the accomplishment of Performance Results.

⁹ 30%, 30% and 40% of the number of granted shares to be compensated are determined upon the accomplishment of Performance Results, subsidiaries' performance and relative TSR, respectively. 60% of the number of certain granted shares to be compensated is determined upon the accomplishment of subsidiaries' performance, while 40% is determined upon the accomplishment of relative TSR. 40%, 30% and 30% of the number of certain granted shares to be compensated are determined upon accomplishment of Performance Results, subsidiaries' performance and relative TSR, respectively. 50% of the number of certain granted shares to be compensated is determined upon the accomplishment of subsidiaries' performance, while 50% is determined upon the accomplishment of relative TSR. 70% of the number of certain granted shares to be compensated is determined upon the accomplishment of subsidiaries' performance, while 30% is determined upon the accomplishment of relative TSR.

Details of stock grants linked to short-term performance as of December 31, 2016, are as follows:

	Grant date	Estimated number of vested shares ¹	Vesting conditions
KB Financial Group Inc.			
Stock granted in 2010	Jan. 01, 2010	322	Satisfied
Stock granted in 2011	Jan. 01, 2011	1,728	Satisfied
Stock granted in 2012	Jan. 01, 2012	2,642	Satisfied
Stock granted in 2013	Jan. 01, 2013	6,486	Satisfied
Stock granted in 2014	Jan. 01, 2014	16,231	Satisfied
Stock granted in 2015	Jan. 01, 2015	19,943	Satisfied
Stock granted in 2016	Jan. 01, 2016	21,083	Proportional to service period
Kookmin Bank			
Stock granted in 2013	Jan. 01, 2013	33,999	Satisfied
Stock granted in 2014	Jan. 01, 2014	107,427	Satisfied
Stock granted in 2015	Jan. 01, 2015	140,999	Satisfied
Stock granted in 2016	Jan. 01, 2016	133,598	Proportional to service period
Other subsidiaries and associate			
Stock granted in 2013	-	3,276	Satisfied
Stock granted in 2014	-	49,780	Satisfied
Stock granted in 2015	-	166,218	Satisfied
Stock granted in 2016	-	153,112	Proportional to service period

¹ During the year, executives and employees were given the option of deferred payment of the granted shares (after the date of retirement), payment ratio, and payment period. Accordingly, a certain percentage of the granted amount is deferred for up to five years after the date of retirement after the deferred grant has been confirmed.

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:

	Expected exercise period (Years)	Risk free rate (%)	Fair value (Market performance condition)	Fair value (Non-market performance condition)
Linked to long term performance				
(KB Financial Group Inc.)				
Series 4	-	1.57	-	34,180 ~ 40,662
Series 8	-	1.57	-	34,180 ~ 42,824
Series 9	0.00~1.00	1.57	38,111	34,180 ~ 42,824
Series 12	0.89~4.00	1.57	48,889	42,003 ~ 42,380
Series 14	1.00~6.00	1.57	41,663	41,471 ~ 42,380
Series 15	1.00~6.00	1.57	41,552	41,471 ~ 42,380
Series 16	1.21~3.00	1.57	42,824	42,295 ~ 42,824
Deferred grant in 2013	-	1.57	-	42,824 ~ 42,824
Deferred grant in 2014	0.00~1.00	1.57	-	42,680 ~ 42,824
Deferred grant in 2015	0.00~6.00	1.57	-	41,471 ~ 42,824
Deferred grant in 2016	0.00~7.00	1.57	-	41,367 ~ 42,868
(Kookmin Bank)				
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
(Other subsidiaries and associate)				
Share granted in 2010	0.00~2.00	1.57	-	38,961 ~ 42,824
Share granted in 2011	0.00~2.00	1.57	-	40,662 ~ 42,824
Share granted in 2012	0.00~2.00	1.57	39,538~39,538	38,111 ~ 42,824
Share granted in 2013	0.00~2.00	1.57	34,947~34,947	34,180 ~ 42,824
Share granted in 2014	0.00~6.00	1.57	34,612~42,868	34,612 ~ 42,868
Share granted in 2015	0.00~7.00	1.57	34,180~42,868	34,180 ~ 42,868
Share granted in 2016	0.00~6.00	1.57~1.60	38,680~42,011	41,194 ~ 42,416

	Expected exercise period (Years)	Risk free rate (%)	Fair value (Market performance condition)	Fair value (Non-market performance condition)
Linked to short-term performance				
(KB Financial Group Inc.)				
Share granted in 2010	-	-	-	40,662~40,662
Share granted in 2011	-	-	-	38,111~40,662
Share granted in 2012	-	-	-	34,180~40,662
Share granted in 2013	-	-	-	34,180~42,824
Share granted in 2014	0.00~1.00	1.57	-	34,180~42,824
Share granted in 2015	0.00~7.00	1.57	-	41,367~42,824
Share granted in 2016	1.00~7.00	1.57	-	41,367~42,680
(Kookmin Bank)				
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
(Other subsidiaries and associate)				
Share granted in 2013	-	-	-	42,824~42,824
Share granted in 2014	0.00~1.00	1.57	-	42,680~42,824
Share granted in 2015	0.00~6.00	1.57	-	41,471~42,824
Share granted in 2016	1.00~6.00	1.57	-	41,471~42,680

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 of December 31, 2016, was used for the underlying asset price. Additionally, 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 ₩79,742 million and ₩53,678 million, respectively, and the compensation costs from share grants amounting to ₩38,190 million and ₩17,429 million were incurred during the years ended December 31, 2016 and 2015, respectively.

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	Remaining shares ²
Stock granted in 2016	Jan. 23, 2016	33,836	0.00~2.06	33,025
	Apr. 29, 2016	66	0.00~2.33	66
	July 07, 2016	280	0.00~2.52	280
	July 18, 2016	767	0.00~2.55	767
	Aug. 03, 2016	120	0.00~2.59	120
	Aug. 17, 2016	66	0.00~2.63	66
	Aug. 30, 2016	256	0.00~2.66	256
	Sept. 06, 2016	373	0.00~2.68	373
	Oct. 07, 2016	105	0.00~2.77	105
	Nov. 01, 2016	118	0.00~2.84	118
	Dec. 07, 2016	44	0.00~2.93	44
	Dec. 08, 2016	23	0.00~2.94	23
	Dec. 15, 2016	12	0.00~2.96	12
	Dec. 20, 2016	309	0.00~2.97	309
	Dec. 28, 2016	45	0.00~2.99	45
Dec. 30, 2016	210	0.00~3.00	210	
		36,630	-	35,819

¹ Mileage stock may be exercised after one year from the grant date for two years. 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 may still be exercised at the closing price of prior month.

² The remaining shares are assessed based on the stock price as of December 31, 2016. These shares may be exercised immediately at grant date.

The accrued expenses for share-based payments in regards 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 nine-month periods ended December 31, 2016.

32. Net Other Non-operating Income and Expenses

Details of other non-operating income and expenses for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016	2015
Other non-operating income		
Gain on disposal in property and equipment	₩ 669	₩ 514
Rent received	15,847	24,366
Gains on bargain purchase	628,614	-
Others	100,409	266,278
	745,539	291,158
Other non-operating expenses		
Loss on disposal in property and equipment	1,835	1,128
Donation	37,705	47,602
Restoration cost	2,255	514
Others	32,875	101,450
	74,670	150,694
Net other non-operating income	₩ 670,869	₩ 140,464

33. 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	₩	607,175	₩	342,066
Adjustments recognized in the period for current tax of prior years		27,217		(17,939)
		634,392		324,127
Changes in deferred income tax assets (liabilities)		(201,012)		93,221
Income tax recognized directly in equity				
Exchange difference in foreign operation		(11,338)		-
Remeasurements of net defined benefit liabilities		(4,093)		7,363
Change in value of available-for-sale financial assets		20,754		5,177
Change in value of held-to-maturity financial assets		(1,186)		349
Share of other comprehensive loss of associates		116		(816)
Cash flow hedges		(1,423)		(486)
Hedges of a net investment in a foreign operation		2,265		8,134
		5,095		19,721
Others		-		320
Tax expense	₩	438,475	₩	437,389

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	
	Tax rate (%)	Amount	Tax rate (%)	Amount
Net profit before income tax		₩ 2,628,655		₩ 2,164,695
Tax at the applicable tax rate ¹	24.18	635,673	24.18	523,394
Non-taxable income	(7.15)	(188,062)	(3.92)	(84,835)
Non-deductible expense	0.64	16,711	0.75	16,186
Tax credit and tax exemption	(0.04)	(1,079)	(0.02)	(427)
Temporary difference for which no deferred tax is recognized	0.10	2,749	0.27	5,772
Deferred tax relating to changes in recognition and measurement	(0.03)	(828)	(0.01)	(251)
Income tax refund for tax of prior years	(0.48)	(12,612)	(0.92)	(19,894)
Income tax expense of overseas branch	0.13	3,447	0.18	3,827
Effects from change in tax rate	(0.03)	(739)	(0.03)	(671)
Others	(0.64)	(16,785)	(0.26)	(5,712)
Average effective tax rate and tax expense	16.68	₩ 438,475	20.21	₩ 437,389

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% as of December 31, 2016 and 2015.

Details of current tax assets (income tax refund receivables) and current tax liabilities (income tax payables), as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016					
	Tax payables (receivables) before offsetting		Offsetting	Tax payables (receivables) after offsetting		
Income tax refund receivables ¹	₩	(226,560)	₩	226,560	₩	-
Income tax payables		668,372		(226,560)		441,812

(In millions of Korean won)

	2015					
	Tax payables (receivables) before offsetting		Offsetting	Tax payables (receivables) after offsetting		
Income tax refund receivables ¹	₩	(309,168)	₩	309,168	₩	-
Income tax payables		340,088		(309,168)		30,920

¹ Excludes current tax assets of ₩65,738 million (2015: ₩18,525 million) by uncertain tax position and others, which do not qualify for offsetting.

34. Dividends

The dividends paid to the shareholders of the Parent Company in 2016 and 2015 were ₩ 378,625 million (₩980 per share) and ₩ 301,354 million (₩780 per share), respectively. The dividends to the shareholders of the Parent Company in respect of the year ended December 31, 2016, of ₩ 1,250 per share, amounting to total dividends of ₩ 497,969 million, is to be proposed at the annual general shareholders' meeting on March 24, 2017. The Group's consolidated financial statements as of December 31, 2015, do not reflect this dividend payable.

35. 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 except for reclassification	Reclassification to profit or loss	Tax effect	Ending					
Remeasurements of net defined benefit liabilities	₩	(133,876)	₩	16,914	₩	-	₩	(4,093)	₩	(121,055)
Exchange differences on translating foreign operations		32,990		31,486		-		(11,338)		53,138
Change in value of available-for-sale financial assets		653,130		30,877		(103,141)		20,754		601,620
Change in value of held-to-maturity financial assets		2,731		(1,448)		6,350		(1,186)		6,447
Shares of other comprehensive income of associates		(89,081)		(7,209)		-		116		(96,174)
Cash flow hedges		(10,173)		16,238		(10,717)		(1,423)		(6,075)
Hedges of a net investment in a foreign operation		(25,477)		(9,360)		-		2,265		(32,572)
	₩	430,244	₩	77,498	₩	(107,508)	₩	5,095	₩	405,329

(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	₩ (110,814)	₩ (30,425)	₩ -	₩ 7,363	₩ (133,876)
Exchange differences on translating foreign operations	(12,153)	45,143	-	-	32,990
Change in value of available-for-sale financial assets	680,900	209,815	(242,762)	5,177	653,130
Change in value of held-to-maturity financial assets	3,823	(1,441)	-	349	2,731
Shares of other comprehensive income of associates	(89,303)	1,038	-	(816)	(89,081)
Cash flow hedges	(10,774)	23,205	(22,118)	(486)	(10,173)
Hedges of a net investment in a foreign operation	-	(33,611)	-	8,134	(25,477)
	₩ 461,679	₩ 213,724	₩ (264,880)	₩ 19,721	₩ 430,244

36. Earnings per Share

36.1 Basic Earnings Per Share

Basic earnings per share is calculated by dividing profit and loss attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, excluding the treasury shares, during the years ended December 31, 2016 and 2015.

Weighted average number of ordinary shares outstanding :

(In number of shares)

	2016	2015
Beginning (A)	₩ 386,351,693	₩ 386,351,693
Issue of ordinary shares related to business combination (B)	6,421,389	-
Acquisition of treasury shares (C)	(9,153,437)	-
Weighted average number of ordinary shares outstanding (D=A+B+C)	383,619,645	386,351,693

Basic earnings per share :

(In Korean won and in number of shares)

	2016	2015
Profit attributable to ordinary shares (D)	₩ 2,143,744,271,801	₩ 1,698,317,850,139
Weighted average number of ordinary shares outstanding (E)	383,619,645	386,351,693
Basic earnings per share (F = D / E)	₩ 5,588	₩ 4,396

36.2 Diluted Earnings per Share

Diluted earnings per share is calculated using the weighted average number of ordinary shares outstanding which is adjusted by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. The Group's dilutive potential ordinary shares include stock grants.

A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Group's outstanding shares for the period) based on the monetary value of the subscription rights attached to the share options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of stock grants.

Adjusted profit for diluted earnings per share for the years ended December 31, 2016 and 2015, are as follows:

(In Korean won)

	2016		2015	
Profit attributable to ordinary shares	₩	2,143,744,271,801	₩	1,698,317,850,139
Adjustment		-		-
Adjusted profit for diluted earnings	₩	2,143,744,271,801	₩	1,698,317,850,139

Adjusted weighted average number of ordinary shares outstanding to calculate diluted earnings per share for the years ended December 31, 2016 and 2015, are as follows:

(In number of shares)

	2016		2015	
Weighted average number of ordinary shares outstanding		383,619,645		386,351,693
Adjustment:				
Stock grants		2,013,044		1,741,558
Adjusted weighted average number of ordinary shares outstanding for diluted earnings per share		385,632,689		388,093,251

Diluted earnings per share for the years ended December 31, 2016 and 2015, are as follows:

(in Korean won and in number of shares)

	2016		2015	
Adjusted profit for diluted earnings per share	₩	2,143,744,271,801	₩	1,698,317,850,139
Adjusted weighted average number of ordinary shares outstanding for diluted earnings per share		385,632,689		388,093,251
Diluted earnings per share	₩	5,559	₩	4,376

37. Insurance Contracts

37.1 Insurance Liabilities

Details of insurance liabilities presented within other liabilities as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
Individual insurance				
Pure endowment insurance	₩	5,150,946	₩	4,840,555
Death insurance		243,008		156,179
Joint insurance		1,872,706		1,906,777
Group insurance		2,147		1,895
Others		22,037		19,293
	₩	7,290,844	₩	6,924,699

The changes in insurance liabilities for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016											
	Individual insurance					Total						
	Pure endowment insurance	Death insurance	Joint insurance	Group insurance	Others ¹							
Beginning	₩	4,840,555	₩	156,179	₩	1,906,777	₩	1,895	₩	19,293	₩	6,924,699
Provision		310,391		86,829		(34,071)		252		2,744		366,145
Ending	₩	5,150,946	₩	243,008	₩	1,872,706	₩	2,147	₩	22,037	₩	7,290,844

(In millions of Korean won)

	2015											
	Individual insurance					Total						
	Pure endowment insurance	Death insurance	Joint insurance	Group insurance	Others ¹							
Beginning	₩	4,334,823	₩	112,858	₩	1,800,468	₩	1,417	₩	15,632	₩	6,265,198
Provision		505,732		43,321		106,309		478		3,661		659,501
Ending	₩	4,840,555	₩	156,179	₩	1,906,777	₩	1,895	₩	19,293	₩	6,924,699

¹ Consists of policyholders' profit dividend reserve, reserve for compensation for losses on dividend-paying insurance contracts and others.

37.2 Insurance Assets

Details of insurance assets presented within other assets as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
Reinsurance assets	₩	5,995	₩	5,844
Deferred acquisition costs		122,151		106,645
	₩	128,146	₩	112,489

The changes in reinsurance assets for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
Beginning	₩	5,844	₩	4,482
Increase		151		1,362
Ending	₩	5,995	₩	5,844

The changes in deferred acquisition costs for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
Beginning	₩	106,645	₩	123,011
Increase		116,433		58,732
Amortization		(100,927)		(75,098)
Ending	₩	122,151	₩	106,645

37.3 Insurance Premiums and Reinsurance

Details of insurance premiums for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016											
	Pure endowment insurance		Death insurance		Joint insurance		Group insurance		Others		Total	
Insurance premiums earned	₩	716,015	₩	152,418	₩	285,891	₩	7,356	₩	28,742	₩	1,190,422
Reinsurance premiums paid		(470)		(2,409)		(369)		(2,472)		(6,566)		(12,286)
Net premiums earned	₩	715,545	₩	150,009	₩	285,522	₩	4,884	₩	22,176	₩	1,178,136

(In millions of Korean won)

	2015											
	Pure endowment insurance		Death insurance		Joint insurance		Group insurance		Others		Total	
Insurance premiums earned	₩	870,915	₩	82,390	₩	367,181	₩	5,898	₩	36,621	₩	1,363,005
Reinsurance premiums paid		(459)		(2,656)		(360)		(2,198)		(7,084)		(12,757)
Net premiums earned	₩	870,456	₩	79,734	₩	366,821	₩	3,700	₩	29,537	₩	1,350,248

Details of reinsurance transactions for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016							
	Reinsurance expense		Reinsurance revenue					
	Reinsrance premium paid	Reinsurance claims recovered	Reinsurance commission	Total				
Individual	₩	3,248	₩	2,287	₩	806	₩	3,093
Group		2,472		2,705		-		2,705
Others		6,566		5,132		-		5,132
	₩	12,286	₩	10,124	₩	806	₩	10,930

(In millions of Korean won)

	2015							
	Reinsurance expense		Reinsurance revenue					
	Reinsrance premium paid	Reinsurance claims recovered	Reinsurance commission	Total				
Individual	₩	3,475	₩	1,913	₩	793	₩	2,706
Group		2,198		2,159		9		2,168
Others		7,084		5,494		-		5,494
	₩	12,757	₩	9,566	₩	802	₩	10,368

Insurance expenses for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016											
	Pure endowment insurance	Death insurance	Joint insurance	Group insurance	Others	Total						
Insurance expense	₩	8,852	₩	2,770	₩	137,417	₩	4,999	₩	4,751	₩	158,789
Dividend expense		893		16		1		-		-		910
Refund expense		458,000		19,302		212,231		674		-		690,207
Provision		310,391		86,829		(34,071)		252		2,744		366,145
		778,136		108,917		315,578		5,925		7,495		1,216,051
Reinsurance claims		(133)		(1,978)		(176)		(2,705)		(5,132)		(10,124)
Net insurance expense	₩	778,003	₩	106,939	₩	315,402	₩	3,220	₩	2,363	₩	1,205,927

(In millions of Korean won)

	2015					
	Pure endowment insurance	Death insurance	Joint insurance	Group insurance	Others	Total
Insurance expense	₩ 10,395	₩ 2,298	₩ 78,723	₩ 4,426	₩ 4,740	₩ 100,582
Dividend expense	581	25	1	-	-	607
Refund expense	415,202	11,629	207,052	285	-	634,168
Provision	505,732	43,321	106,309	478	3,661	659,501
	931,910	57,273	392,085	5,189	8,401	1,394,858
Reinsurance claims	(251)	(1,620)	(43)	(2,158)	(5,494)	(9,566)
Net insurance expense	₩ 931,659	₩ 55,653	₩ 392,042	₩ 3,031	₩ 2,907	₩ 1,385,292

37.4 Insurance Risk

Summary of insurance risk

Insurance risk is the risk of loss arising from the actual risk at the time of claims exceeding the estimated risk at the time of underwriting. Insurance risk is classified by insurance price risk and policy reserve risk.

Insurance price risk is the risk of loss arising from differences between premiums from policyholders and actual claims paid.

Policy reserve risk is the risk of loss arising from differences between policy reserves the Group holds and actual claims to be paid.

Concentration of insurance risk and reinsurance policy

The Group uses reinsurance with the intent to expand the ability of underwriting insurance contracts through mitigating the exposure to insurance risk, and generates synergy by joint development of products, management discipline and collecting information on foreign markets.

The Group cedes reinsurance for mortality, illness and other risks arising from insurance contracts where the Group has little experience for a necessary period of time required to accumulate experience.

The Group's reinsurance is ceded through the following process:

- i. In the decision-making process of launching a new product, the Group makes a decision on ceding reinsurance. Subsequently, a reinsurer is selected through bidding, agreements with the relevant departments and final approval by the executive management.
- ii. The reinsurance department analyzes the object of reinsurance, the maximum limit of reinsurance and the loss ratio with the relevant departments.

The characteristic and exposure of insurance price risk

The insurance risk of a life insurance company is measured by insurance price risk. As the life insurance coverage is in the form of a fixed payment, the fluctuation of policy reserve is small and the period from insured event to claims payment is not long. The policy reserve risk is managed by assessments of adequacy of the policy reserve.

The Group measures the exposure of insurance price risk as the shortfall of the risk premiums received compared to the claims paid on all insurance contracts for the last one year preceding the reporting date.

The maximum exposure of premium risk as of December 31, 2016 and 2015, follows:

(In millions of Korean won)

	2016			
	Before reinsurance mitigation		After reinsurance mitigation	
Mortality	₩	13,662	₩	9,272
Disability		1,341		947
Hospitalization		1,022		777
Operation and diagnosis		2,341		1,856
Actual losses for medical expense		468		299
Others		581		544
	₩	19,415	₩	13,695

(In millions of Korean won)

	2015			
	Before reinsurance mitigation		After reinsurance mitigation	
Mortality	₩	11,769	₩	7,510
Disability		1,245		854
Hospitalization		817		546
Operation and diagnosis		1,699		1,174
Actual losses for medical expense		310		123
Others		421		380
	₩	16,261	₩	10,587

Average ratios of claims paid per risk premium received on the basis of exposure before mitigation for the past three years as of December 31, 2016 and 2015, were 69% and 69%, respectively.

The exposure of market risk arising from embedded derivatives included in host insurance contracts as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016				2015			
	Policyholders reserve ¹		Guarantee reserve		Policyholders reserve ¹		Guarantee reserve	
Variable annuity	₩	491,137	₩	3,702	₩	518,849	₩	5,572
Variable universal		105,218		4,855		104,816		2,247
Variable saving		256,262		179		214,779		179
	₩	852,617	₩	8,736	₩	838,444	₩	151

¹ Excluding the amount of the lapsed reserve

Premium reserves and unearned premium reserves classified based on each residual maturity as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016						
	Less than 3 years	3-5 years	5-10 years	10-15 years	15-20 years	20 years or more	Total
Premium reserves	₩ 730,903	₩ 597,166	₩ 1,207,513	₩ 558,322	₩ 348,269	₩ 3,719,525	₩ 7,161,698
Unearned premium reserves	803	-	1	1	-	64	869

(In millions of Korean won)

	2015							Total
	Less than 3 years	3-5 years	5-10 years	10-15 years	15-20 years	20 years or more		
Premium reserves	₩ 493,888	₩ 737,423	₩ 1,248,613	₩ 498,641	₩ 359,802	₩ 3,485,061	₩ 6,823,428	
Unearned premium reserves	638	-	1	1	1	16	657	

38. Trust Accounts

Financial information of the trust accounts that Kookmin Bank manages as of December 31, 2016 and 2015, are 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 transactions between the Group and the trust accounts 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	₩ 219,215	₩ 270,664
Interest income from loans on trust accounts	1,083	3,126
Commissions from early termination in trust accounts	65	171
	₩ 220,363	₩ 273,961
Expenses		
Interest expenses due to trust accounts	₩ 37,750	₩ 48,293
Receivables		
Accrued trust fees	₩ 31,188	₩ 50,336
Due from trust accounts	9,351	29,186
	₩ 40,539	₩ 79,522
Payables		
Due to trust accounts	₩ 4,430,508	₩ 2,791,404
Accrued interest on due to trust accounts	6,767	6,354
	₩ 4,437,275	₩ 2,797,758

39. 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	₩ 2,158,268	₩ 2,074,357
Checks with other banks	400,422	396,955
Due from Bank of Korea	7,676,491	6,791,990
Due from other financial institutions	7,649,682	7,052,764
	17,884,863	16,316,066
Restricted cash from financial institutions	(9,301,946)	(7,124,241)
Due from financial institutions with original maturities over three months	(1,168,081)	(1,733,906)
	(10,470,027)	(8,858,147)
	₩ 7,414,836	₩ 7,457,919

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	₩ 1,399,315	₩ 1,418,960
Changes in accumulated other comprehensive income due to valuation of financial investments	(47,871)	(28,969)
Decrease in accumulated other comprehensive income from measurement of investment securities in associates	(7,093)	222
Change in shares of investment in associate due to Hyundai Securities Co., Ltd.'s inclusion of the consolidation scope	(1,459,604)	-
Increase in financial investments due to debt-for-equity swap with Taihan Electric Wire Co., Ltd.	-	14,729

Cash inflows and outflows from income tax, interests and dividends for the year December 31, 2016 and 2015, are as follows:

		(In millions of Korean won)	
	Activity	2016	2015
Income tax paid	Operating	₩ 231,786	₩ 218,215
Interest received	Operating	10,208,678	10,976,847
Interest paid	Operating	3,707,653	4,569,076
Dividends received	Operating	132,654	160,562
Dividends paid	Financing	378,625	301,354

40. Contingent Liabilities and Commitments

Details of payment guarantees as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
Confirmed payment guarantees				
Confirmed payment guarantees in Korean won				
Payment guarantees for KB purchasing loan	₩	329,051	₩	422,316
Other payment guarantees		858,951		609,034
		1,188,002		1,031,350
Confirmed payment guarantees in foreign currency				
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
Other payment guarantees in foreign currency		1,593,770		1,444,618
		4,348,745		4,739,501
Financial guarantees				
Guarantees for Debenture-Issuing		31,000		51,200
Payment guarantees for mortgage		25,994		27,805
Overseas debt guarantees		272,255		374,769
International financing guarantees in foreign currencies		52,961		11,893
Other financing payment guarantees		334		6,897
		382,544		472,564
		5,919,291		6,243,415
Unconfirmed acceptances and guarantees				
Guarantees of letter of credit		2,068,105		2,142,496
Refund guarantees		217,272		1,019,116
		2,285,377		3,161,612
	₩	8,204,668	₩	9,405,027

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 (%)
Corporations	₩ 5,129,393	₩ 1,644,556	₩ 6,773,949	82.56
Small companies	623,424	479,514	1,102,938	13.44
Public and others	166,474	161,307	327,781	4.00
	₩ 5,919,291	₩ 2,285,377	₩ 8,204,668	100.00

(In millions of Korean won)

	2015						
		Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)		
Corporations	₩	5,238,851	₩	2,489,134	₩	7,727,985	82.17
Small companies		833,355		517,703		1,351,058	14.37
Public and others		171,209		154,775		325,984	3.46
	₩	6,243,415	₩	3,161,612	₩	9,405,027	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
Whole sale & Retail		1,171,151		779,163		1,950,314	23.77
Construction		509,329		129,111		638,440	7.78
Public sector		82,646		92,445		175,091	2.13
Others		1,575		75,530		77,105	0.95
	₩	5,919,291	₩	2,285,377	₩	8,204,668	100.00

(In millions of Korean won)

	2015						
		Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)		
Financial institutions	₩	114,926	₩	3,664	₩	118,590	1.26
Manufacturing		3,559,955		1,934,904		5,494,859	58.42
Service		584,333		68,494		652,827	6.94
Whole sale & Retail		1,285,101		796,109		2,081,210	22.13
Construction		606,099		200,976		807,075	8.58
Public sector		73,160		106,288		179,448	1.91
Others		19,841		51,177		71,018	0.76
	₩	6,243,415	₩	3,161,612	₩	9,405,027	100.00

Commitments as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
Commitments				
Corporate loan commitments	₩	35,723,627	₩	39,133,379
Retail loan commitments		15,789,809		15,160,930
Credit line on credit cards		43,937,899		41,439,061
Purchase of other security investment and others		1,554,221		1,869,533
		97,005,556		97,602,903
Financial Guarantees				
Credit line		3,334,648		3,449,749
Purchase of security investment		1,029,100		98,700
		4,363,748		3,548,449
	₩	101,369,304	₩	101,151,352

Other Matters (including litigation)

- a) The Group has filed 128 lawsuits (excluding minor lawsuits in relation to the collection or management of loans), involving aggregate claims of ₩487,992 million, and faces 323 lawsuits (as the defendant) (excluding minor lawsuits in relation to the collection or management of loans) involving aggregate damages of ₩447,076 million, which arose in the normal course of the business and are still pending as of December 31, 2016.
- b) The face value of the securities which Kookmin Bank sold to general customers through the bank tellers amounts to ₩5,731 million and ₩11,254 million as of December 31, 2016 and 2015, respectively.
- c) While setting up a fraud detection system, a computer contractor employed by the personal credit ratings firm Korea Credit Bureau caused a widespread data breach in June 2013, resulting in the theft of cardholders' personal information. As a result of the leakage of customer personal information, the KB Kookmin Card received a notification from the Financial Services Commission that the KB Kookmin Card is subject to a temporary three-month operating suspension as of February 16, 2014. In respect of the incident, the Group faces 125 legal claims filed as the defendant, with an aggregate claim of ₩10,300 million as of December 31, 2016. A provision liability of ₩9,549 million has been recognized for these pending lawsuits. KB Kookmin Card has entered into a privacy liability insurance as of December 31, 2016. Therefore, the amounts of receivables guaranteed in case of the legal obligation of payment levied are ₩3,500 million for the lawsuits stated above. In addition, the additional lawsuits may be filed against the Group. Meanwhile, the final outcome of the cases cannot be reasonably ascertained.

41. Subsidiaries

Details of subsidiaries as of December 31, 2016, are as follows:

Investor	Investee	Ownership interests(%)	Location	Date of financial statements	Industry
KB Financial Group Inc.	Kookmin Bank	100.00	Korea	Dec. 31	Banking and foreign exchange transaction
	KB Securities Co., Ltd.	100.00	Korea	Dec. 31	Financial investment
	KB Kookmin Card Co., Ltd.	100.00	Korea	Dec. 31	Credit card and installment finance
	KB Life Insurance Co., Ltd.	100.00	Korea	Dec. 31	Life insurance
	KB Asset Management Co., Ltd.	100.00	Korea	Dec. 31	Security investment trust management and advisory
	KB Capital Co., Ltd.	52.02	Korea	Dec. 31	Financial Leasing
	KB Savings Bank Co., Ltd.	100.00	Korea	Dec. 31	Savings banking
	KB Real Estate Trust Co., Ltd.	100.00	Korea	Dec. 31	Real estate trust management
	KB Investment Co., Ltd.	100.00	Korea	Dec. 31	Capital investment
	KB Credit Information Co., Ltd.	100.00	Korea	Dec. 31	Collection of receivables or credit investigation
	KB Data System Co., Ltd.	100.00	Korea	Dec. 31	Software advisory, development, and supply
Kookmin Bank	Kookmin Bank Int'l Ltd.(London)	100.00	United Kingdom	Dec. 31	Banking and foreign exchange transaction
	Kookmin Bank Hong Kong Ltd.	100.00	Korea	Dec. 31	Banking and foreign exchange transaction
	Kookmin Bank Cambodia PLC.	100.00	Cambodia	Dec. 31	Banking and foreign exchange transaction
	Kookmin Bank (China) Ltd.	100.00	China	Dec. 31	Banking and foreign exchange transaction
KB Securities Co., Ltd.	Hyundai Savings Bank	100.00	Korea	Dec. 31	Savings banking
	Hyundai Asset Management Co.,Ltd.	100.00	Korea	Dec. 31	Collective investment
	KBFG Securities America Inc.	100.00	United States of America	Dec. 31	Investment advisory and securities dealing activities
	KB Securities Hong Kong Ltd.	100.00	Hong Kong	Dec. 31	Investment advisory and securities dealing activities
KB Asset Management Co., Ltd.	Boyoung Construction ⁴	-	Korea	Dec. 31	Construction
Kookmin Bank	Samho Kyungwon Co., Ltd. and 15 others ²	-	Korea and others	Dec. 31	Asset-backed securitization and others

Investor	Investee	Ownership interests(%)	Location	Date of financial statements	Industry
KB Kookmin Card Co., Ltd.	KB Kookmin Card Second Securitization Co., Ltd., and 13 others ²	0.5	Korea	Dec. 31	Asset-backed securitization
KB Securities Co., Ltd.	Dongbuka No.41 Ship Investment Company	99.99	Korea	Dec. 31	Other financial business
	Able Ocean Co., Ltd. and 52 others ²	-	Korea	Dec. 31	Asset-backed securitization
Kookmin Bank, KB Investment Co., Ltd.	KB12-1 Venture Investment	100.00	Korea	Dec. 31	Capital investment
	KB Start-up Creation Fund	62.50	Korea	Dec. 31	Capital investment
KB Investment Co., Ltd.	09-5 KB Venture Fund ⁵	33.33	Korea	Dec. 31	Capital investment
	KoFC-KB Pioneer Champ No.2010-8 Investment Partnership	50.00	Korea	Dec. 31	Capital investment
	2011 KIF-KB IT Venture Fund ⁵	43.33	Korea	Dec. 31	Capital investment
	KoFC-KB Young Pioneer 1st Fund ⁵	33.33	Korea	Dec. 31	Capital investment
Kookmin Bank, KB Investment Co., Ltd.	KB Intellectual Property Fund ⁵	34.00	Korea	Dec. 31	Capital investment
Kookmin Bank, KB life Insurance, KB Investment Co., Ltd.	KB High-tech Company Investment Fund	86.00	Korea	Dec. 31	Capital investment
Kookmin Bank	KB Haeoreum private securities investment trust 26(Bond) and 6 others	100.00	Korea	Dec. 31	Private equity fund
	KB Haeoreum private securities investment trust 45(Bond) ³	33.00	Korea	Dec. 31	Private equity fund
KB Life Insurance Co., Ltd.	KB Haeoreum Private Securities Investment Trust 1st and 3 others	100.00	Korea	Dec. 31	Private equity fund
Kookmin Bank	Hanbando BTL Private Special Asset Fund 1st ³	39.74	Korea	Dec. 31	Capital investment
	KB Evergreen bond fund No.98 (Hedge Fund) ³	41.18	Korea	Dec. 31	Capital investment
Kookmin Bank, KB life Insurance Co., Ltd.	KB Hope Sharing BTL Private Special Asset ³	40.00	Korea	Dec. 31	Capital investment
	KB Mezzanine Private Securities Fund 2nd.(Mixed) ³	40.74	Korea	Dec. 31	Capital investment
	KB Senior Loan Private Fund ³	28.70	Korea	Dec. 31	Capital investment

Investor	Investee	Ownership interests(%)	Location	Date of financial statements	Industry
Kookmin Bank, KB life Insurance Co., Ltd., KB Securities Co., Ltd. , KB Real Estate Trust Co., Ltd.	KB Wise Star Private Real Estate Feeder Fund 1st.	100.00	Korea	Dec. 31	Investment trust
KB Securities Co., Ltd.	KB Vintage 16 Private Securities Investment Trust 1st ³	38.46	Korea	Dec. 31	Capital investment
	Jueun Power Middle 7 and 6 others	100.00	Korea	Dec. 31	Capital investment
	Hyundai You First Private Real Estate Investment Trust No. 1	60.00	Korea	Dec. 31	Capital investment
	Hyundai Smart Index Alpha Securities Feeder Inv Trust ¹	97.72	Korea	Dec. 31	Capital investment
	Hyundai Trust Securities Feeder Investment Trust No.1- Bond	99.88	Korea	Dec. 31	Capital investment
	Hyundai Strong Korea Equity Trust No.1	99.58	Korea	Dec. 31	Capital investment
	Hyundai Kidzania Equity Feeder Trust No.1	74.16	Korea	Dec. 31	Capital investment
	Hyundai Value Plus Equity Feeder Trust No.1	99.47	Korea	Dec. 31	Capital investment
	Hyundai Strong-small Corporate Trust No.1	81.33	Korea	Dec. 31	Capital investment
	JB New Jersey Private Real Estate Investment Trust No. 1	98.15	Korea	Dec. 31	Capital investment
	Hyundai Dynamic Mix Securiticies Feeder Investment Trust	99.97	Korea	Dec. 31	Capital investment
	Hyudai China Index Plus Securities Investment Trust ¹	70.13	Korea	Dec. 31	Capital investment
	Aquila Global Real Assets Fund No.1 LP	99.96	Cayman islands	Dec. 31	Capital investment
	Hyundai Kon-tiki Specialized Privately Placed Fund	50.00	Korea	Dec. 31	Capital investment
	Hyundai You First Private Real Estate Investment Trust No. 15 ³	35.00	Korea	Dec. 31	Capital investment
KB Securities Co., Ltd. and KB Asset Management Co., Ltd.	KB Star Fund_KB Value Focus Korea Equity	91.08	Luxembourg	Dec. 31	Capital investment

Investor	Investee	Ownership interests(%)	Location	Date of financial statements	Industry
KB Securities Co., Ltd. and Others	Able Quant Asia Pacific Feeder Fund(T.E.) Limited	100.00	Cayman islands	Dec. 31	Capital investment
KB Kookmin Card Co., Ltd.	Heungkuk Life Insurance Money Market Trust	100.00	Korea	Dec. 31	Trust asset management
KB Asset Management Co., Ltd.	KB Wellyan Private Equity Real Estate Fund No. 6	100.00	Korea	Dec. 31	Capital investment
	KB Wellyan Private Equity Real Estate Fund No. 7	99.54	Korea	Dec. 31	Capital investment
KB Investment Co., Ltd., KB life Insurance Co., Ltd.	KB-Solidus Global Healthcare Fund ⁵	36.66	Korea	Dec. 31	Capital investment
KB Wise Star Private Real Estate Feeder Fund 1st.	KB Star Retail Private Master Real Estate 1st ⁶	48.98	Korea	Dec. 31	Capital investment
	KB Star Office Private Real Estate Investment Trust 2nd ⁶	44.44	Korea	Dec. 31	Capital investment
Able Quant Asia Pacific Feeder Fund(T.E.) Limited	Able Quant Asia Pacific Master Fund Limited	100.00	Cayman islands	Dec. 31	Capital investment
KBFG Securities America Inc. and others	Global Investment Opportunity Limited	100.00	Malaysia	Dec. 31	Finance and Real Estate Activities
Hyundai Smart Index Alpha Securities Feeder Inv Trust¹	Hyundai Smart Index Alpha Securities Master Investment Trust	99.46	Korea	Dec. 31	Capital investment
Hyundai Trust Securities Feeder Investment Trust No.1- Bond	Hyundai Trust Securities Master Investment Trust - Bond	92.97	Korea	Dec. 31	Capital investment
Hyundai Dynamic Mix Securities Feeder Investment Trust	Hyundai Dynamic Mix Securities Master Investment Trust	98.95	Korea	Dec. 31	Capital investment
Hyundai Value Plus Securities Feeder Investment Trust 1 and others	Hyundai Value Plus Securities Master Investment Trust	100.00	Korea	Dec. 31	Capital investment

Investor	Investee	Ownership interests(%)	Location	Date of financial statements	Industry
Hyundai Quant Long Short Securities Feeder Investment Trust	Hyundai Quant Long Short Securities Master Investment Trust	100.00	Korea	Dec. 31	Capital investment
Aquila Global Real Assets Fund No.1 LP	AGRAF Real Estate No.1, Senningerberg	100.00	Luxembourg	Dec. 31	Asset-backed securitization
AGRAF Real Estate No.1, Senningerberg	AGRAF Real Estate Holding No.1, Senningerberg	100.00	Luxembourg	Dec. 31	Asset-backed securitization
AGRAF Real Estate Holding No.1, Senningerberg	Vierte CasaLog GmbH & Co. KG and 2 others	94.90	Germany	Dec. 31	Real Estate Activities
KB Securities Hong Kong Ltd.	KB Asset Management Singapore PTE., Ltd. and other	100.00	Singapore	Dec. 31	Collective investment and others
JB New Jersey Private Real Estate Investment Trust No. 1	ABLE NJ DSM INVESTMENT REIT	99.18	United States of America	Dec. 31	Real Estate Activities
ABLE NJ DSM INVESTMENT REIT	ABLE NJ DSM, LLC	100.00	United States of America	Dec. 31	Real Estate Activities
Heungkuk Global Highclass Private Real Estate Trust 23	HYUNDAI ABLE INVESTMENT REIT	99.90	United States of America	Dec. 31	Real Estate Activities
HYUNDAI ABLE INVESTMENT REIT	HYUNDAI ABLE PATRIOTS PARK, LLC	100.00	United States of America	Dec. 31	Real Estate Activities
Ocean Able Ltd. Dongbuka No.41 Ship Investment Company	Hyundai Ocean Star Ship Private 2 WISDOM SHAPLEY 41 SHIPPING S.A. and other	100.00	Korea Panama	Dec. 31 Dec. 31	Capital investment Renting of Transport Equipment
Kookmin Bank	Personal pension trusts and 10 other trusts ¹	-	Korea	Dec. 31	Trust

1 The Group controls the trust because it has power that determines the management performance over the trust and is exposed to variable returns to absorb losses through the guarantees of payment of principal, or payment of principal and fixed rate of return.

2 Although the Group holds less than a majority of the investee's voting rights, the Group controls these investees as it has power over relevant activities in case of default; is significantly exposed to variable returns by providing lines of credit or ABCP purchase commitments or due to acquisition of subordinated debt; and has ability to affect those returns through its power.

3 Although the Group holds less than a majority of the investee's voting rights, the Group controls the investee as it has power over relevant activities by managing the fund; has significant percentage of ownership; is significantly exposed to variable returns which is affected by the performance of the investees; and has ability to affect the performance through its power.

4 Boyoung Construction is included in the consolidation scope as KB Wellyan Private Equity Real Estate Fund No. 7 is included in the consolidation scope.

5 Although the Group holds less than a majority of the investee's voting rights, the Group controls the investee as it has power over relevant activities by taking the role of an operating manager and it is significantly exposed to variable returns which is affected by the performance of the investees, and has ability to affect the performance through its power.

6 KB Star Retail Private Master Real Estate 1st and KB Star Office Private Real Estate Investment Trust 2nd are included in the consolidation scope as KB Wise Star Private Real Estate Feeder Fund 1st is included in the consolidation scope.

The condensed financial information of major subsidiaries as of December 31, 2016 and 2015, is as follows:

(In millions of Korean won)

	2016						
	Assets	Liabilities	Equity	Operating income (revenue)	Profit(loss) for the period	Total comprehensive income for the period	
Kookmin Bank ¹	₩ 307,066,370	₩ 283,741,368	₩ 23,325,002	₩ 17,866,478	₩ 964,256	₩ 958,312	
KB Securities Co., Ltd. ^{1,2,3}	32,382,795	28,198,439	4,184,356	2,444,185	(93,428)	(65,689)	
KB Kookmin Card Co., Ltd. ¹	15,772,036	11,807,038	3,964,998	3,017,568	317,103	331,023	
KB Life Insurance Co., Ltd. ¹	8,887,413	8,337,849	549,564	1,480,979	12,714	(33,269)	
KB Asset Management Co., Ltd. ¹	170,781	16,605	154,176	127,435	58,756	57,503	
KB Capital Co., Ltd. ²	7,428,372	6,640,305	788,067	473,253	96,785	96,740	
KB Savings Bank Co., Ltd.	1,078,130	895,921	182,209	65,938	10,319	9,897	
KB Real Estate Trust Co., Ltd.	216,687	33,713	182,974	65,230	29,270	29,636	
KB Investment Co., Ltd. ¹	315,878	168,491	147,387	49,425	6,170	2,388	
KB Credit Information Co., Ltd.	27,973	7,647	20,326	37,271	43	126	
KB Data System Co., Ltd.	27,037	12,655	14,382	76,394	613	722	

(In millions of Korean won)

	2015						
	Assets	Liabilities	Equity	Operating income (revenue)	Profit(loss) for the period	Total comprehensive income for the period	
Kookmin Bank ¹	₩ 290,277,907	₩ 267,530,696	₩ 22,747,211	₩ 16,367,176	₩ 1,107,238	₩ 1,037,234	
KB Kookmin Card Co., Ltd. ¹	16,141,810	12,307,827	3,833,983	2,994,808	355,020	353,528	
KB Investment & Securities Co., Ltd. ^{1,2}	6,118,251	5,495,285	622,966	921,883	47,118	46,225	
KB Life Insurance Co., Ltd. ¹	8,516,783	7,933,950	582,833	1,626,245	10,563	(892)	
KB Asset Management Co., Ltd. ¹	228,011	81,338	146,673	115,748	24,581	24,734	
KB Capital Co., Ltd. ²	5,563,402	5,003,278	560,124	359,986	60,419	60,778	
KB Savings Bank Co., Ltd.	856,516	684,204	172,312	67,629	20,644	19,518	
KB Real Estate Trust Co., Ltd.	223,820	20,482	203,338	55,719	20,289	19,380	
KB Investment Co., Ltd. ¹	276,798	130,999	145,799	40,557	8,387	11,015	
KB Credit Information Co., Ltd.	28,533	8,332	20,201	40,807	(578)	(649)	
KB Data System Co., Ltd.	28,388	14,728	13,660	57,434	(140)	(863)	

¹ Financial information is based on its consolidated financial statements.

² The amount includes the fair value adjustments due to the merger.

³ Profit(loss) is based on the amount after Hyundai Securities Co., Ltd. is included in the consolidation scope (October 2016).

Nature of the risks associated with interests in consolidated structured entities

The terms of contractual arrangements to provide financial support to a consolidated structured entity

- The Group has provided payment guarantees of ₩1,595,200 million to Growth Investment First Co., Ltd. and other subsidiaries that issued debentures.
- The Group provides capital commitment to KB Wise Star Private Real Estate Feeder Fund 1st. and 9 other subsidiaries. The unexecuted amount of the investment agreement is ₩458,490 million. Based on the capital commitment, the Group is subject to increase its investment upon the request of the asset management company or the additional agreement among investors.
- The Group provides the guarantees of payment of principal, or principal and fixed rate of return in case the operating results of the trusts are less than the guaranteed principal, or principal and fixed rate of return.

Changes in subsidiaries

The subsidiaries newly included in consolidation during the year ended December 31, 2016, are as follows:

Company	Description
KB High-tech Company Investment Fund KB Star Fund_KB Value Focus Korea Equity Heungkuk Life Insurance Money Market Trust Hyundai Savings Bank Co., Ltd. and 47 others ¹	Holds over than a majority of the ownership interests
KL 1st Inc. and 16 others Able Ocean Co., Ltd. and 57 others ¹	Holds the power in the case of default or providing lines of credit or ABCP purchase commitments or is exposed to variable returns due to acquisition of subordinated debt
KB-Solidus Global Healthcare Fund KB Vintage 16 Private Securities Investment Trust 1st KB Evergreen bond fund No.98 (Hedge Fund) Hyundai You First Private Real Estate Investment Trust No. 15 KB Haeoreum private securities investment trust 45(Bond)	Exposed to variable returns due to the power that determines the management performance over the trust and holding significant amounts of the ownership interests.

¹ New subsidiaries due to Hyundai Securities Co., Ltd.'s inclusion of consolidation scope.

The subsidiaries excluded from consolidation during the year ended December 31, 2016, are as follows:

Company	Description
Ashley Investment First Co., Ltd. GoldenEgg Investment Co., Ltd.	Lost the right of variable returns due to the releasing debt
Wise Mobile First Securitization Specialty and 4 others KB Mezzanine Private Securities Fund H THE HILL 5th Co., Ltd. and 6 others	Liquidated
Midus Absolute Return PF Bond 2(Hedge Fund) and other KB Star Fund_KB Value Focus Korea Equity	Repurchased Decrease of the interest to less than a majority

For the year ended December 31, 2016, the following table summarizes the information relating to the Group's subsidiaries that have material non-controlling interests, before any intra-group eliminations, are as follows:

(In millions of Korean won)

	2016		2015
Non-controlling interests percentage	47.98%		47.98%
Non-controlling interests			
Assets of subsidiaries	₩ 7,428,372	₩	5,563,402
Liabilities of subsidiaries	6,640,305		5,003,278
Equity of subsidiaries	788,067		560,124
Non-controlling interests	263,359		222,101
Profit attributable to non-controlling interests			
Operating profit of subsidiaries	127,550		78,779
Profit of subsidiaries	96,785		60,419
Profit attributable to non-controlling interests	46,436		28,988
Cash flows of subsidiaries			
Cash flows from operating activities	(1,783,799)		(1,140,145)
Cash flows from investing activities	(7,023)		(9,646)
Cash flows from financing activities	1,671,199		1,351,623
Net increase(decrease) in cash and cash equivalents	₩ (119,623)	₩	201,832

42. 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	Activity	Method 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 transfer of securitization assets Issuance and repayment of ABS and ABCP	Issuance of ABS and ABCP based on securitization assets
Project Financing	Granting PF loans to SOC and real estate Granting loans to ships/aircrafts SPC	Construction of SOC and real estate Building ships/ construction and purchase of aircrafts	Loan commitments through Credit Line, providing lines of credit and investment agreements
Trust	Management of financial trusts; -Development trust -Mortgage trust -Management trust -Disposal trust -Distribution and management trust -Other trusts	Development, management, and disposal of trusted real estate assets Payment of trust fees and allocation of trust profits.	Distribution of trusted real estate assets and financing of trust company Public auction of trusted real estate assets and financing of trust company
Investment funds	Investment in beneficiary certificates Investment in PEF and partnerships	Management of fund assets Payment of fund fees and allocation of fund profits	Sales of beneficiary certificate instruments Investment of managing partners and limited partners

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	Trusts	Investment funds	Others	Total
Total assets of unconsolidated Structured Entity	₩ 95,829,740	₩ 22,529,407	₩ 588,267	₩ 33,606,036	₩ 4,723,822	₩ 157,277,272
Carrying amount on financial statements						
Assets						
Financial assets at fair value through profit or loss	677,658	75,477	-	25,253	-	778,388
Derivative financial assets	110	-	-	-	-	110
Loans	610,623	2,860,776	54,500	26,897	173,989	3,726,785
Financial investments	6,406,641	8,595	305	3,621,376	19,612	10,056,529
Investment in associates	-	728	-	227,203	-	227,931
Other assets	6,945	3,002	9,350	859	57	20,213
	₩ 7,701,977	₩ 2,948,578	₩ 64,155	₩ 3,901,588	₩ 193,658	₩ 14,809,956
Liabilities						
Deposits	₩ 528,041	₩ 703,049	₩ -	₩ 40,382	₩ 6,895	₩ 1,278,367
Other liabilities	658	-	-	-	-	658
	₩ 528,699	₩ 703,049	₩ -	₩ 40,382	₩ 6,895	₩ 1,279,025
Maximum exposure to loss ¹						
Holding assets	₩ 7,701,977	₩ 2,948,578	₩ 64,155	₩ 3,901,588	₩ 193,658	₩ 14,809,956
Purchase and investment commitments	726,375	-	-	1,607,542	-	2,333,917
Unused credit	2,701,254	-	-	-	33,500	2,734,754
Payment guarantee and loan commitments	290,100	1,475,760	-	-	-	1,765,860
	₩ 11,419,706	₩ 4,424,338	₩ 64,155	₩ 5,509,130	₩ 227,158	₩ 21,644,487
Methods of determining the maximum exposure to loss	Providing lines of credit and purchase commitments	Loan commitments /investment agreements / purchase commitments and acceptances and guarantees	Dividends by results trust: Total amount of trust exposure	Investments /loans and capital commitments	Loan commitments	

(In millions of Korean won)

	2015					
	Asset-backed securitization	Project financing	Trusts	Investment funds	Others	Total
Total assets of unconsolidated Structured Entity	₩ 54,151,312	₩ 23,291,892	₩ 2,371,180	₩ 28,084,612	₩ 6,268,674	₩ 114,167,670
Carrying amount on financial statements						
Assets						
Financial assets at fair value through profit or loss	225,559	-	-	-	-	225,559
Derivative financial assets	373	-	-	-	-	373
Loans	262,172	3,140,760	-	58,805	388,560	3,850,297
Financial investments	9,428,582	85,495	2,026	1,325,221	18,303	10,859,627
Investment in associates	-	-	-	386,909	-	386,909
Other assets	119	11	29,186	1,654	71	31,041
	₩ 9,916,805	₩ 3,226,266	₩ 31,212	₩ 1,772,589	₩ 406,934	₩ 15,353,806
Liabilities						
Deposits	₩ 258,554	₩ 728,059	₩ -	₩ 9,406	₩ 19,743	₩ 1,015,762
Other liabilities	330	-	-	-	-	330
	₩ 258,884	₩ 728,059	₩ -	₩ 9,406	₩ 19,743	₩ 1,016,092
Maximum exposure to loss ¹						
Holding assets	₩ 9,916,805	₩ 3,226,266	₩ 31,213	₩ 1,772,589	₩ 406,934	₩ 15,353,807
Purchase and investment commitments	516,558	14,177	-	1,584,181	-	2,114,916
Unused credit	3,449,749	-	-	-	-	3,449,749
Payment guarantee and loan commitments	16,132	1,234,149	-	-	78,801	1,329,082
	₩ 13,899,244	₩ 4,474,592	₩ 31,213	₩ 3,356,770	₩ 485,735	₩ 22,247,554
Methods of determining the maximum exposure to loss	Providing lines of credit and purchase commitments	Loan commitments /investment agreements / purchase commitments and acceptances and guarantees	Dividends by results trust: Total amount of trust exposure	Investments /loans and 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 financial statements of the Group.

43. Finance and Operating Lease

43.1 Finance lease

43.1.1 The Group as finance lessee

The future minimum lease payments arising as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
Net carrying amount of finance lease assets	₩	40,750	₩	52,204
Minimum lease payment				
Within 1 year		2,424		3,069
1-5 years		3,099		4,122
		5,523		7,191
Present value of minimum lease payment				
Within 1 year		2,392		3,022
1-5 years		2,907		3,824
		5,299		6,846

43.1.2 The Group as finance lessor

Total lease investment and the present value of minimum lease payments as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016			
	Total lease investment		Present value of minimum lease payment	
Within 1 year	₩	562,552	₩	478,312
1-5 years		1,096,614		1,004,512
	₩	1,659,166	₩	1,482,824
			₩	61,842
			₩	388,995
				764,368
			₩	1,302,376
			₩	1,153,363

Unearned interest income of finance lease as of December 31, 2016 and 2015, is as follows:

(In millions of Korean won)

	2016		2015	
Total lease investment	₩	1,659,166	₩	1,302,376
Net lease investment				
Present value of minimum lease payment		1,482,824		1,153,363
Unearned interest income	₩	176,342	₩	149,013

43.2 Operating lease

43.2.1 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 payment				
Within 1 year	₩	148,449	₩	126,428
1-5 years		174,232		109,853
Over 5 years		34,488		34,679
	₩	357,169	₩	270,960
Minimum sublease payment	₩	(1,109)	₩	(374)

The lease payment 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 payment	₩	197,444	₩	194,173
Sublease payment		(1,026)		(167)
	₩	196,418	₩	194,006

43.2.2 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	₩	91,966	₩	41,544
1-5 years		150,365		77,336
Over 5 years		-		738
	₩	242,331	₩	119,618

44. 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
Associates			
KB Insurance Co., Ltd.	Interest income	₩ 63	₩ 50
	Interest expense	1,057	164
	Fee and commission income	20,321	5,329
	Fee and commission expense	508	-
	Gains on financial assets/liabilities at fair value through profit or loss	4,822	2,761
	Losses on financial assets/liabilities at fair value through profit or loss	3,701	164
	Other operating income	12,972	759
	Other operating expense	6,406	1,233
	General and administrative expenses	14,244	3,691
	Reversal for credit loss	119	-
	Provision for credit loss	-	14
	Other non-operating income	110	10
	Other non-operating expense	74	(3,496)
Balhae Infrastructure Fund	Fee and commission income	8,440	7,975
Korea Credit Bureau Co., Ltd.	Interest expense	92	73
	Fee and commission income	1,648	1,822
	Fee and commission expense	1,948	1,900
	General and administrative expenses	1,968	2,199
UAMCO., Ltd. ¹	Interest expense	1	8
	Fee and commission income	5	14
KoFC KBIC Frontier Champ 2010-5(PEF)	Fee and commission income	457	548
United PF 1st Recovery Private Equity Fund ¹	Interest expense	1	49
KB GwS Private Securities Investment Trust	Fee and commission income	896	894
IMM Investment 5th PRIVATE EQUITY FUND	Other non-operating expense	1	-
Incheon Bridge Co., Ltd.	Interest income	14,534	12,843
	Interest expense	369	436
	Reversal for credit loss	-	2
	Provision for credit loss	31	4
Jaeyang Industry Co., Ltd.	Reversal for credit loss	37	-
HIMS Co., Ltd. ¹	Interest income	51	-
KoFC POSCO HANHWA KB Shared Growth Private Equity Fund No. 2	Fee and commission income	212	675
	Interest expense	10	-

(In millions of Korean won)

		2016	2015
Aju Good Technology Venture Fund	Interest expense	4	-
KB Star Office Private Real Estate Investment Trust No.1	Interest income	371	370
	Interest expense	87	92
	Fee and commission income	436	435
RAND Bio Science Co., Ltd.	Interest expense	14	-
Inno Lending Co.,Ltd	Other non-operating expense	20	-
KBIC Private Equity Fund No. 3	Interest expense	12	23
	Fee and commission income	260	300
E-clear International Co., Ltd.	Interest income	-	18
Sawnics Co., Ltd.1	Interest income	-	1
SY Auto Capital Co., Ltd.	Interest income	718	-
	Interest expense	19	24
	Fee and commission income	-	-
	Other operating income	1,606	1,588
	Other operating expense	153	-
	Provision for credit losses	61	1
	Other non-operating income	250	-
KB No.3 Special Purpose Acquisition Company ¹	Interest income	-	62
	Interest expense	-	5
	Gains on financial assets/liabilities at fair value through profit or loss	-	4,077
	Reversal for credit loss	-	14
KB No.4 Special Purpose Acquisition Company ¹	Interest income	-	78
	Interest expense	-	25
	Gains on financial assets/liabilities at fair value through profit or loss	-	172
	Reversal for credit loss	-	14
KB No.5 Special Purpose Acquisition Company ¹	Interest income	68	68
	Interest expense	19	44
	Gains on financial assets/liabilities at fair value through profit or loss	216	-
	Losses on financial assets/liabilities at fair value through profit or loss	-	119
	Reversal for credit loss	29	-
	Provision for credit loss	-	16
	Other non-operating income	2	-
KB No.6 Special Purpose Acquisition Company ¹	Interest income	55	53
	Interest expense	14	66
	Losses on financial assets/liabilities at fair value through profit or loss	65	471
	Other non-operating expense	4	-

(In millions of Korean won)

		2016	2015
KB No.7 Special Purpose Acquisition Company ¹	Interest income	37	34
	Interest expense	18	38
	Fee and commission income	-	150
	Gains on financial assets/liabilities at fair value through profit or loss	861	998
	Other non-operating income	40	-
	Interest income	74	41
KB No.8 Special Purpose Acquisition Company	Interest expense	35	21
	Fee and commission income	-	350
	Gains on financial assets/liabilities at fair value through profit or loss	-	1,951
	Losses on financial assets/liabilities at fair value through profit or loss	41	-
	Reversal for credit loss	50	-
	Provision for credit loss	-	50
	Interest income	73	12
KB No.9 Special Purpose Acquisition Company	Interest expense	40	7
	Fee and commission income	473	-
	Gains on financial assets/liabilities at fair value through profit or loss	1,665	-
	Losses on financial assets/liabilities at fair value through profit or loss	392	6
	Reversal for credit loss	49	-
	Provision for credit loss	-	50
	Interest income	17	-
KB No.10 Special Purpose Acquisition Company	Interest expense	8	-
	Fee and commission income	175	-
	Gains on financial assets/liabilities at fair value through profit or loss	1,497	-
	Other non-operating income	5	-
	Interest income	3	-
	Gains on financial assets/liabilities at fair value through profit or loss	16	-
Keystone-Hyundai Securities No. 1 Private Equity Fund	Fee and commission income	22	-
	Interest income	2	-
MJT&I Co., Ltd.	Interest income	1	-
Doosung Metal Co., Ltd.	Interest income	1	-
Other			
Retirement pension	Interest expense	749	955
	Fee and commission income	717	611

¹ Excluded from the Group's related party as of December 31, 2016.

Details of receivables and payables, and related allowances for loans losses arising from the related party transactions as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

		2016	2015
Associates			
KB Insurance Co., Ltd.	Derivative financial assets	₩ 3,941	₩ 2,059
	Loans and receivables (Gross amount)	6,791	5,013
	Allowances for loan losses	9	31
	Other assets	23,341	12,672
	Derivative financial liabilities	13,545	219
	Deposits	9,883	8,415
	Debts	20,000	20,000
	Provisions	8	105
	Other liabilities	6,384	4,301
Balhae Infrastructure Fund	Other assets	2,123	2,039
Korea Credit Bureau Co., Ltd.	Loans and receivables (Gross amount)	14	19
	Deposits	26,827	19,435
	Other liabilities	255	368
UAMCO., Ltd. ¹	Loans and receivables (Gross amount)	-	5
	Deposits	-	815
JSC Bank CenterCredit	Cash and due from financial institutions	8	1,225
KoFC KBIC Frontier Champ 2010-5(PEF)	Other assets	-	137
KB GwS Private Securities Investment Trust	Other assets	673	641
Incheon Bridge Co., Ltd.	Loans and receivables (Gross amount)	209,105	231,674
	Allowances for loan losses	331	301
	Other assets	821	970
	Deposits	38,556	35,916
	Provisions	3	2
	Other liabilities	166	153
KoFC POSCO HANHWA KB Shared Growth Private Equity Fund No. 2	Other assets	98	346
Terra Co., Ltd.	Deposits	-	1
Dpaps Co., Ltd.	Deposits	-	3
Jaeyang Industry Co., Ltd.	Loans and receivables (Gross amount)	303	-
	Allowances for loan losses	6	-
	Other assets	7	-
Aju Good Technology Venture Fund	Deposits	1,201	-
	Other liabilities	1	-
Ejade Co., Ltd.	Deposits	2	12
Jungdong Steel Co., Ltd.	Deposits	3	-
Doosung Metal Co., Ltd.	Deposits	-	1

(In millions of Korean won)

		2016	2015
KB Star Office Private Real Estate Investment Trust No.1	Loans and receivables (Gross amount)	10,000	10,000
	Other assets	136	137
	Deposits	6,682	7,446
	Other liabilities	50	56
NPS KBIC Private Equity Fund No. 1 ¹	Allowances for loan losses	-	133
	Other assets	-	142
RAND Bio Science Co., Ltd.	Deposits	2,356	-
	Loans and receivables (Gross amount)	1	-
	Other liabilities	12	-
Inno Lending Co.,Ltd	Deposits	1,902	-
isMedia Co.,Ltd	Provisions	4	-
KBIC Private Equity Fund No. 3	Other assets	64	76
	Deposits	700	850
	Other liabilities	1	9
Sawnics Co., Ltd. ¹	Deposits	-	319
SY Auto Capital Co., Ltd.	Loans and receivables (Gross amount)	30,049	34
	Allowances for loan losses	32	-
	Other assets	108	214
	Deposits	3,997	1,845
	Provisions	29	-
	Other liabilities	70	567
KB No.5 Special Purpose Acquisition Company ¹	Derivative financial assets	-	2,024
	Loans and receivables (Gross amount)	-	1,869
	Deposits	-	2,323
	Other liabilities	-	39
KB No.6 Special Purpose Acquisition Company ¹	Derivative financial assets	-	1,366
	Loans and receivables (Gross amount)	-	1,492
	Deposits	-	4,195
	Other liabilities	-	68
KB No.7 Special Purpose Acquisition Company ¹	Derivative financial assets	-	1,192
	Loans and receivables (Gross amount)	-	1,091
	Deposits	-	2,336
	Other liabilities	-	37
KB No.8 Special Purpose Acquisition Company	Derivative financial assets	2,235	2,334
	Loans and receivables (Gross amount)	2,490	2,147
	Allowances for loan losses	-	50
	Deposits	2,342	2,373
	Other liabilities	3	21
KB No.9 Special Purpose Acquisition Company	Derivative financial assets	2,441	384
	Loans and receivables (Gross amount)	2,584	2,207
	Allowances for loan losses	-	50
	Deposits	2,399	2,973
	Other liabilities	6	7

(In millions of Korean won)

		2016	2015
KKB No.10 Special Purpose	Derivative financial assets	1,698	-
Acquisition Company	Loans and receivables (Gross amount)	1,495	-
	Deposits	1,754	-
	Other liabilities	8	-
	Derivative financial assets	135	-
KB No.11 Special Purpose	Derivative financial assets	135	-
Acquisition Company	Loans and receivables (Gross amount)	790	-
Key management	Loans and receivables (Gross amount)	1,982	2,305
	Other assets	2	3
	Deposits	8,217	4,189
	Insurance contract liabilities	413	485
	Other liabilities	139	30
Other			
	Retirement pension		
	Other assets	304	264
	Deposits	1,464	51,920
	Other liabilities	16,497	37,969

¹ The amounts are not disclosed as these are excluded from the Group's related party as of December 31, 2016.

According to Korean IFRS 1024, the Group includes associates, key management (including family members), and post-employment benefit plans of the Group and its related party companies in the scope of related parties. Additionally, the Group discloses balances (receivables and payables) and other amounts arising from the related party transactions in the notes to the interim consolidated financial statements. Refer to Note 13 for details on investments in associates.

Key management includes the directors of the Parent Company, and the directors of Kookmin 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
Associates					
KB Insurance Co., Ltd.	₩ 5,013	₩ 1,778	₩ -	₩ -	₩ 6,791
Korea Credit Bureau Co., Ltd.	19	-	(5)	-	14
UAMCO., Ltd. ²	5	-	(5)	-	-
Incheon Bridge Co., Ltd.	231,674	4,000	(26,569)	-	209,105
Jaeyang Industry Co., Ltd.	-	-	-	303	303
HIMS Co., Ltd. ²	-	3,500	(3,500)	-	-
KB Star Office Private Real Estate Investment Trust No.1	10,000	-	-	-	10,000
RAND Bio Science Co., Ltd.	-	1	-	-	1
SY Auto Capital Co., Ltd.	34	30,015	-	-	30,049
KB No.5 Special Purpose Acquisition Company ²	2,180	-	-	(2,180)	-
KB No.6 Special Purpose Acquisition Company ²	1,710	-	-	(1,710)	-
KB No.7 Special Purpose Acquisition Company ²	1,250	-	-	(1,250)	-
KB No.8 Special Purpose Acquisition Company	2,490	-	-	-	2,490
KB No.9 Special Purpose Acquisition Company	2,584	-	-	-	2,584
KB No.10 Special Purpose Acquisition Company	-	1,495	-	-	1,495
KB No.11 Special Purpose Acquisition Company	-	790	-	-	790

(In millions of Korean won)

	2015 ¹				
	Beginning	Loans	Repayments	Others	Ending
Associates					
KB Insurance Co., Ltd.	₩ -	₩ 5,013	₩ -	₩ -	₩ 5,013
Korea Credit Bureau Co., Ltd.	19	-	-	-	19
UAMCO., Ltd. ²	2	3	-	-	5
Incheon Bridge Co., Ltd.	247,885	8,006	(24,217)	-	231,674
KB Star Office Private Real Estate Investment Trust No.1	10,000	-	-	-	10,000
SY Auto Capital Co., Ltd.	-	34	-	-	34
KB No.3 Special Purpose Acquisition Company ²	1,780	-	-	(1,780)	-
KB No.4 Special Purpose Acquisition Company ²	2,280	-	-	(2,280)	-
KB No.5 Special Purpose Acquisition Company ²	2,180	-	-	-	2,180
KB No.6 Special Purpose Acquisition Company ²	1,710	-	-	-	1,710
KB No.7 Special Purpose Acquisition Company	-	1,250	-	-	1,250
KB No.8 Special Purpose Acquisition Company	-	2,490	-	-	2,490
KB No.9 Special Purpose Acquisition Company	-	2,584	-	-	2,584

¹ Transactions and balances arising from operating activities between related parties; such as, payments, are excluded.

² Excluded from the Group's related party as of December 31, 2016.

Unused commitments to related parties as of December 31, 2016 and December 31, 2015, are as follows:

(In millions of Korean won)

		2016	2015
Associates			
KB Insurance Co., Ltd.	Loan commitments in Korean won	₩ -	₩ 20,000
	Commitments of derivative financial instruments	251,833	-
	Unused commitments of credit card	20,859	21,601
Balhae Infrastructure Fund	Purchase of security investment	13,371	18,098
Korea Credit Bureau Co., Ltd.	Unused commitments of credit card	116	51
UAMCO., Ltd. ¹	Purchase of security investment	-	89,950
	Unused commitments of credit card	-	15
JSC Bank CenterCredit	Loan commitments in foreign currencies	-	117,200
KoFC KBIC Frontier Champ 2010-5(PEF)	Purchase of security investment	2,150	2,150
United PF 1st Recovery Private Equity Fund	Purchase of security investment	-	49,383
Aju Good Technology Venture Fund	Purchase of security investment	18,000	-
Incheon Bridge Co., Ltd.	Loan commitments in Korean won	50,000	38,963
	Unused commitments of credit card	89	79
KoFC POSCO HANHWA KB Shared Growth Private Equity Fund No. 2	Purchase of security investment	12,550	16,300
SY Auto Capital Co., Ltd.	Loan commitments in Korean won	10,000	-
	Unused commitments of credit card	101	116
isMedia Co.,Ltd	Loan commitments in Korean won	1,260	-
KB No.5 Special Purpose Acquisition Company ¹	Unused commitments of credit card	-	2
KB No.6 Special Purpose Acquisition Company ¹	Unused commitments of credit card	-	8
KB No.7 Special Purpose Acquisition Company ¹	Unused commitments of credit card	-	5
KB No.8 Special Purpose Acquisition Company	Unused commitments of credit card	-	10
KB No.9 Special Purpose Acquisition Company	Unused commitments of credit card	1	1
KB No.10 Special Purpose Acquisition Company	Unused commitments of credit card	4	-
RAND Bio Science Co., Ltd.	Unused commitments of credit card	24	-
Key management	Loan commitments in Korean won	898	223

¹ The amounts are not disclosed as these are excluded from the Group's related party as of December 31, 2016.

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	Termination benefits	Share-based payments	Total
Registered directors (executive)	₩ 1,165	₩ 63	₩ -	₩ 863	₩ 2,091
Registered directors (non-executive)	796	-	-	-	796
Non-registered directors	6,637	208	-	8,776	15,621
	₩ 8,598	₩ 271	₩ -	₩ 9,639	₩ 18,508

(In millions of Korean won)

	2015				
	Short-term employee benefits	Post-employment benefits	Termination benefits	Share-based payments	Total
Registered directors (executive)	₩ 1,612	₩ 60	₩ -	₩ 925	₩ 2,597
Registered directors (non-executive)	848	-	-	-	848
Non-registered directors	6,173	94	163	4,320	10,750
	₩ 8,633	₩ 154	₩ 163	₩ 5,245	₩ 14,195

Details of assets pledged as collateral to related parties as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

Associates		2016		2015	
		Carrying amount	Collateralized amount	Carrying amount	Collateralized amount
KB Insurance Co., Ltd.	Land and buildings	₩ 217,369	₩ 26,000	₩ 216,284	₩ 26,000
	Investment securities	50,000	50,000	-	-

Collateral received from related parties as of December 31, 2016 and December 31, 2015, is as follows:

(In millions of Korean won)

		2016	2015
Associates			
KB Insurance Co., Ltd.	Investment securities	₩ 50,000	₩ -
Incheon Bridge Co., Ltd.	Fund management account for standby loan commitment	65,000	65,000
KB Star Office Private Real Estate Investment Trust No.1	Real estate	13,000	13,000
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, provided fund management account, civil engineering completed risk insurance, shares and management rights as senior collateral amounting to ₩816,400 million to a financial syndicate that consists of the Group and four other institutions, and provided subordinated collateral amounting to ₩201,100 million to subordinated debt holders that consist of the Group and two other institutions

45. Business Combination

45.1 The Acquisition of shares of Hyundai Securities Co., Ltd.

The Group obtained 100% shares of Hyundai Securities Co., Ltd. by comprehensively swapping total issued shares of Hyundai Securities Co., Ltd., excluding shares held by the Group at the share exchange date (October 19, 2016), with newly issued shares of KB Financial Group Co., Ltd. As a result, Hyundai Securities Co., Ltd. became a wholly owned subsidiary of the Group. Based on the Board of Directors on November 1, 2016, Hyundai Securities as the surviving entity and KB Investment & Securities Co., Ltd. as the non-surviving entity are merged on December 30, 2016, and this is merger transaction between subsidiaries under a common control of the Group.

The following table summarizes the consideration paid for business combination, and the fair value of assets acquired, liabilities assumed:

(In millions of Korean won)

	2016	
Consideration		
Fair value of existing holdings at the time of stock exchange	₩	1,456,263
Equity securities(Common shares: 31,759,844)		1,305,330
Total consideration transferred	₩	2,761,593
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and due from financial institutions	₩	1,825,496
Financial assets at fair value through profit or loss		14,084,518
Derivative financial assets		591,019
Available-for-sale financial assets		3,116,372
Held-to-maturity financial assets		17,314
Investments in associates		6,487
Loans		4,717,679
Property plant and equipment(included Investment property)		673,627
Intangible assets		144,459
Other assets		1,188,254
Total Assets		26,365,225
Financial liabilities at fair value through profit or loss		8,515,540
Deposits		3,258,894
Derivative financial liabilities		674,123
Debentures		9,031,139
Other liabilities		1,495,322
Total liabilities		22,975,018
Total identifiable net assets	₩	3,390,207
Non-controlling interests		-
Gains on bargain purchase		628,614

As a result of the business combination, there was a gain on the bargain purchase and the Group recognized it as other non-operating income in the consolidated statement of comprehensive income.

Details of loans acquired are as follows:

(In millions of Korean won)

	2016	
Fair value of loans	₩	4,717,679
Contractual total amount of loan receivables		4,798,537
Contractual cash flows that are not expected to be recovered		(136,370)

Details of intangible assets recognized as a result of business combinations are as follows:

(In millions of Korean won)

	2016	
Securities brokerage intangible assets ¹	₩	64,501
Securities bank deposits intangible assets ¹		12,665
Others ²		67,293
	₩	144,459

¹ To estimate the fair value of securities brokerage intangible assets and securities bank deposits intangible assets, the Group used the multi-period excess earnings method of the income approach. The multi-period excess earnings method is the considering the present value by discounting the excess earning generated by the intangible assets subject to valuation with an appropriate discount rate. The excess earning for each year is calculated by deducting the cost of property, plant and equipment or other intangible assets (contributed assets) that have been contributed the earning generated by the intangible assets subject to valuation

² Memberships and other intangible assets were previously held by Hyundai Securities Co., Ltd.

In 2016, the Group measured 29.62% of Hyundai Securities Co., Ltd.'s equity interest held before the business combination at fair value and recognized ₩5,817 million as a loss on investment in the consolidated statements of income.

After the acquisition date, operating loss and net loss of Hyundai Securities Co., Ltd. were ₩78,849 million and ₩61,773million, respectively.

If Hyundai Securities Co., Ltd. was consolidated from the beginning of the current period, the operating profit and profit for the period of the Group would be ₩15,821million and ₩10,360million, respectively, in the consolidated statement of comprehensive income.

45.2 Merger of Hyundai Securities and KB Investment&Securities Co., Ltd.

On December 30, 2016, Hyundai Securities Co., Ltd. merged with KB Investment & Securities Co., Ltd. and changed the name to KB Securities Co., Ltd. As a result, shareholders listed in the shareholder register of KB Investment & Securities Co., Ltd. as of the merger date were allotted with 1.3368131 common share of Hyundai Securities Co., Ltd. (per value ₩5,000) in exchange for one common share of KB Investment & Securities Co., Ltd (per value ₩5,000).

46. 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 9, 2017.

Independent Auditor's Report



Samil PricewaterhouseCoopers, 92, Hangang-daero,
Yongsan-gu, Seoul 140-702, Korea
(Yongsan P.O Box 266, 140-600), www.samil.com

To the Shareholders and Board of
Directors of KB Financial Group Inc.

We have audited the accompanying separate financial statements of KB Financial Group Inc. (the Company), which comprise the separate statements of financial position as of December 31, 2016 and 2015, and the separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years then ended, and notes to the separate 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 separate 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 separate 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 separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the separate 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 Company'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 separate 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 separate financial statements present fairly, in all material respects, the separate financial position of KB Financial Group Inc. as of December 31, 2016 and 2015, and its separate financial performance and its separate 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.

Samil PricewaterhouseCoopers

Seoul, Korea
March 14, 2017

This report is effective as of March 14, 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 separate 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.

Separate Statements of Financial Position

December 31, 2016 and 2015

KB Financial Group Inc.

(In millions of Korean won)

	Notes		2016		2015
Assets					
Cash and due from financial institutions	4,5,6,29	₩	115,065	₩	324,947
Financial assets at fair value through profit or loss	4,5,7		246,656		99,118
Loans	4,5,8		29,415		-
Investments in subsidiaries	9		21,392,745		18,557,566
Investments in an associate	10		1,053,690		883,065
Property and equipment	11		469		578
Intangible assets	12		8,092		8,428
Deferred income tax assets	13		4,604		4,515
Other assets	4,5,14		519,223		137,954
Total assets		₩	23,369,959	₩	20,016,171
Liabilities					
Debts	4,5,15	₩	350,000	₩	-
Debentures	4,5,16		3,474,200		1,647,117
Net defined benefit liabilities	17		(193)		591
Current income tax liabilities			419,607		17,178
Other liabilities	4,5,18		104,528		123,281
Total liabilities			4,348,142		1,788,167
Equity					
Share capital	19		2,090,558		1,931,758
Capital surplus	19		14,656,168		13,513,809
Accumulated other comprehensive income	19		(4,742)		(4,979)
Retained earnings	19		2,998,923		2,787,416
Treasury shares	19		(719,090)		-
Total equity			19,021,817		18,228,004
Total liabilities and equity		₩	23,369,959	₩	20,016,171

The accompanying notes are an integral part of these separate financial statements.

Separate Statements of Comprehensive Income

Years Ended December 31, 2016 and 2015

KB Financial Group Inc.

(In millions of Korean won, except per share amounts)

	Notes	2016	2015
Interest income		₩ 4,597	₩ 2,185
Interest expense		(60,521)	(27,929)
Net interest expense	21	(55,924)	(25,744)
Fee and commission income		203	-
Fee and commission expense		(7,417)	(8,228)
Net fee and commission expense	22	(7,214)	(8,228)
Net gains on financial assets at fair value through profit or loss	23	5,272	1,658
Net other operating income	24	694,908	315,527
General and administrative expenses	25	(46,734)	(39,916)
Operating profit before provision for credit losses		590,308	243,297
Provision for credit losses		-	-
Operating profit		590,308	243,297
Net non-operating expense	26	(340)	(62)
Profit before income tax		589,968	243,235
Income tax benefit	27	164	190
Profit for the period		590,132	243,425
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit liabilities		237	(741)
Other comprehensive income for the period, net of tax		237	(741)
Total comprehensive income for the period		₩ 590,369	₩ 242,684
Earnings per share			
Basic earnings per share	28	₩ 1,538	₩ 630
Diluted earnings per share	28	1,530	627

The accompanying notes are an integral part of these separate financial statements.

Separate Statements of Changes in Equity

Years Ended December 31, 2016 and 2015

KB Financial Group Inc.

(In millions of Korean won)

	Share Capital	Capital Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Shares	Total Equity
Balance at January 1, 2015	₩ 1,931,758	₩ 13,513,809	₩ (4,238)	₩ 2,845,345	₩ -	₩ 18,286,674
Comprehensive income						
Profit for the period	-	-	-	243,425	-	243,425
Remeasurements of net defined benefit liabilities	-	-	(741)	-	-	(741)
Total comprehensive income (loss)			(741)	243,425	-	242,684
Transactions with shareholders						
Dividends	-	-	-	(301,354)	-	(301,354)
Total transactions with shareholders	-	-	-	(301,354)	-	(301,354)
Balance at December 31, 2015	₩ 1,931,758	₩ 13,513,809	₩ (4,979)	₩ 2,787,416	₩ -	₩ 18,228,004
Balance at January 1, 2016	₩ 1,931,758	₩ 13,513,809	₩ (4,979)	₩ 2,787,416	₩ -	₩ 18,228,004
Comprehensive income						
Profit for the period	-	-	-	590,132	-	590,132
Remeasurements of net defined benefit liabilities	-	-	237	-	-	237
Total comprehensive income	-	-	237	590,132	-	590,369
Transactions with shareholders						
Dividends	-	-	-	(378,625)	-	(378,625)
Acquisition of treasury shares	-	-	-	-	(719,090)	(719,090)
Issue of ordinary shares related to business combination	158,800	1,142,359	-	-	-	1,301,159
Total transactions with shareholders	158,800	1,142,359	-	(378,625)	(719,090)	203,444
Balance at December 31, 2016	₩ 2,090,558	₩ 14,656,168	₩ (4,742)	₩ 2,998,923	₩ (719,090)	₩ 19,021,817

The accompanying notes are an integral part of these separate financial statements.

Separate Statements of Cash Flows

Years Ended December 31, 2016 and 2015

KB Financial Group Inc.

(In millions of Korean won)

	Note	2016	2015
Cash flows from operating activities			
Profit for the period		₩ 590,132	₩ 243,425
Adjustment for non-cash items			
Depreciation and amortization		801	846
Share-based payments		3,724	1,799
Net interest expense		1,073	224
Net loss from valuation on financial assets at fair value through profit or loss		2,462	882
Net other expenses		2,214	2,594
		10,274	6,345
Changes in operating assets and liabilities			
Deferred income tax assets		(89)	(426)
Other assets		(1,433)	315,222
Other liabilities		(3,164)	(16,697)
		(4,686)	298,099
Net cash inflow from operating activities		595,720	547,869
Cash flows from investing activities			
Acquisition of investment in subsidiaries		(1,534,021)	-
Acquisition of investment in associates		(170,625)	(883,065)
Acquisition of financial assets at fair value through profit or loss		(150,000)	(100,000)
Increase in loans		(29,415)	-
Collection of loans		-	10,000
Acquisition of property and equipment		(163)	(401)
Acquisition of intangible assets		(107)	(486)
Disposal of intangible assets		10	157
Net decrease (increase) in guarantee deposits paid		(1,590)	3,651
Others		-	85
Net cash outflow from investing activities		(1,885,911)	(970,059)
Cash flows from financing activities			
Net increase in debts		350,000	-
Proceeds from issuance of debentures		1,975,742	1,017,752
Repayments of debentures		(150,000)	-
Dividends paid		(378,625)	(301,354)
Acquisition of treasury shares		(716,808)	-
Net cash inflow from financing activities		1,080,309	716,398
Net increase(decrease) in cash and cash equivalents		(209,882)	294,208
Cash and cash equivalents at the beginning of the year	29	324,944	30,736
Cash and cash equivalents at the end of the year	29	₩ 115,062	₩ 324,944

The accompanying notes are an integral part of these separate financial statements.

Notes to the Separate Financial Statements

December 31, 2016 and 2015

KB Financial Group Inc.

1. The Company

KB Financial Group Inc. (the "Company"), in accordance with Financial Holding Companies Act, was established on September 29, 2008, through stock transfers with the former shareholders of Kookmin Bank, 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. in order to provide management services and financing to associated companies. The headquarters are located at 84, Namdaemunro, Jung-gu, Seoul. The Company's share capital as of December 31, 2016, is ₩2,090,558 million. In 2011, Kookmin Bank spun off its credit card business segment and established a new separate credit card company, KB Kookmin Card Co., Ltd., and KB Investment & Securities Co., Ltd. merged with KB Futures Co., Ltd. The Company established KB Savings Bank Co., Ltd. in January 2012, acquired Yehansoul Savings Bank Co., Ltd. in September 2013, and KB Savings Bank Co., Ltd. merged with Yehansoul Savings Bank Co., Ltd. in January 2014. In March 2014, the Company acquired Woori Financial Co., Ltd. and changed the name to KB Capital Co., Ltd. Meanwhile, the Company included LIG Insurance Co., Ltd. as an associate and changed the name to KB Insurance Co., Ltd. in June 2015. Also, the Company included Hyundai Securities Co., Ltd. as an associate in June 2016 and included as a subsidiary on October 2016 by comprehensive exchange of shares. Hyundai Securities Co., Ltd. merged with KB Investment & Securities Co., Ltd. in December 2016 and changed the name to KB Securities Co., Ltd. in January 2017.

The Company has been listed on the Korea Exchange ("KRX") since October 10, 2008, and on the New York Stock Exchange ("NYSE") for its American Depositary Shares ("ADS") since September 29, 2008. Number of shares authorized on its Articles of Incorporation is 1,000 million.

2. Basis of Preparation

2.1 Application of Korean IFRS

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language ("Hangeul") in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS"). The accompanying separate 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 Company's financial position, financial performance or cash flows, is not presented in the accompanying separate financial statements.

The separate financial statements of the Company have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

The preparation of separate financial statements requires the use of certain critical accounting estimates. Management also needs to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 2.4.

The separate financial statements were prepared in accordance with Korean IFRS 1027, Separate Financial Statements.

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2016. The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

- Amendment to Korean IFRS 1001, Presentation of Financial Statements
- Amendment to Korean IFRS 1016, Property, plant and equipment, and Korean IFRS 1041, Agriculture and fishing: Productive plants
- Amendment to Korean IFRS 1016, Property, plant and equipment, and Korean IFRS 1038, Intangible assets: Amortization based on revenue
- Amendment to Korean IFRS 1110, Consolidated Financial Statements, Korean IFRS 1028, Investments in Associates and Joint Ventures, and Korean IFRS 1112, Disclosures of Interests in Other Entities
- Amendment to Korean IFRS 1111, Joint Arrangements
- Amendment to Korean IFRS 1027, Separate Financial Statements: Choice of applying to accounting for the using equity method
- Annual Improvements to Korean IFRS 2012-2014 Cycle

Certain new accounting standards and interpretations that have been published that are not mandatory for financial year beginning January 1, 2016 and have not been early adopted by the Company are set out below.

- Amendments to Korean IFRS 1007, Statement of Cash Flows

Amendments to Korean IFRS 1007 Statement of Cash flows 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 Company will apply this amendment for annual reporting periods beginning on or after January 1, 2017 with early application permitted. The Company does not expect the amendments to have a significant impact on the separate financial statements.

- Amendments to Korean IFRS 1012 Income Tax

Amendments to Korean IFRS 1012 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Korean IFRS 1012 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments issued clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice. The Company will apply the amendments for annual periods beginning on or after January 1, 2017 with early application permitted. The Company does not expect the amendments to have a significant impact on the separate financial statements.

- Amendments to Korean IFRS 1102 Share-based Payment

Amendments to Korean IFRS 1102 clarifies accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. And also, clarifies that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The Company will apply the amendments for annual periods beginning on or after January 1, 2018 with early application permitted. The Company does not expect the amendments to have a significant impact on the separate 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 Company 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, measurement and 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 Korean IFRS 1109 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and the system stabilization. The impact on the Company's financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Company and macroeconomic variables.

Within the Company, Korean IFRS 1109 Task Force Team ('TFT') has been set up to prepare for implementation of Korean IFRS 1109 since October 2015. There are three stages for implementation of Korean IFRS, such as analysis, design and implementation, and preparation for application. The Company is analyzing financial impacts of Korean IFRS 1109 on its separate 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 12months)	Development of methodology, definition of business requirement, and the system development and test.
3	From Jan. 2017 to Mar. 2018 (for 15 months)	Preparation for opening balances of the financial statements

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 Company's business model for managing the financial assets and contractual terms of cash flow. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. If a hybrid contract contains a host that is a financial asset, the classification of the hybrid contract shall be determined for the entire contract without separating the embedded derivative.

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	
Hold the financial asset for the collection of the contractual cash flows and trading	Measured at fair value through other comprehensive income ¹	Recognized at fair value through profit or loss ²
Hold for trading and others	Measured 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 A designation at fair value through other comprehensive income is allowed only if the financial instrument is the equity investment that is not held for trading (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 an extended fluctuation in profit or loss.

(b) Classification and Measurement of Financial Liabilities

Korean IFRS 1109 requires the amount of the change in the liability's fair value attributable to changes in the credit risk to be recognized in other comprehensive income, unless this treatment of the credit risk component creates or enlarges a measurement mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

Under Korean IFRS 1039, all financial liabilities designated at fair value through profit or loss recognized their fair value movements in profit or loss. However, under Korean IFRS 1109, certain fair value movements will be recognized in other comprehensive income and as a result, profit or loss from fair value movements may decrease.

(c) Impairment: Financial Assets and Contract Assets

Korean IFRS 1109 sets out a new forward looking 'expected credit 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, a credit event (or impairment "trigger") no longer has to occur before credit losses are recognized. The Company will always recognize (at a minimum) 12-month expected credit losses in profit or loss. Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

	Stage	Loss allowance
1	No significant increase in credit risk after initial recognition	12-month expected credit losses: expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date
2	Significant increase in credit risk after initial recognition	Lifetime expected credit losses: expected credit losses that result from all possible default events over the life of the financial instrument
3	Objective evidence of impairment	

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 Company'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.

The Company will apply new standard for annual reporting periods beginning on or after January 1, 2018 with early application permitted. The Company does not expect the amendments to have a significant impact on the separate financial statements.

2.2 Measurement Basis

The separate financial statements have been prepared under the historical cost convention unless otherwise specified.

2.3 Functional and Presentation Currency

Items included in the separate financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (“the functional currency”). The separate financial statements are presented in Korean won, which is the Company’s functional and presentation currency.

2.4 Critical Accounting Estimates

The preparation of separate 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.

The significant accounting estimates and assumptions are consistently applied to all periods presented, except for the assumptions for income tax expense and fair value of financial instruments.

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 financial statements are as follows:

2.4.1 Income taxes

The Company is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. If certain portion of the taxable income is not used for investments, increase in wages, or dividends in accordance with the Tax System for Recirculation of Corporate Income, the Company is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new system. As the Company’s income tax is dependent on the investments, increase in wages and dividends, there exists uncertainty with regard to measuring the final tax effects.

2.4.2 Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available is determined by using valuation techniques. Financial instruments, which are not actively traded in the market and those with less transparent market prices, will have less objective fair values and require broad judgment on liquidity, concentration, uncertainty in market factors and assumptions in price determination and other risks (Note 5).

2.4.3 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 17).

3. Significant Accounting Policies

The significant accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

3.1 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, foreign currency, and short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.2 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 Company 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 Company 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 Company is provided internally on that basis to the Company's key management personnel.
- A contract contains one or more embedded derivatives; the Company may designate the entire hybrid (combined) contract as a financial asset at fair value through profit or loss if allowed by Korean IFRS 1039, Financial Instruments: Recognition and measurement.

After initial recognition, a financial asset at fair value through profit or loss is measured at fair value and gains or losses arising from a change in the fair value are recognized in profit or loss. Interest income, dividend income, and gains or losses from sale and repayment from financial assets at fair value through profit or loss are recognized in the statement of comprehensive income as net gains on financial instruments at fair value through profit or loss.

3.3 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 Company does not intend to sell immediately or in the near term.
- Those that the Company, 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 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 provision for credit losses.

Impairment loss on loans reduces the carrying amount of the asset through use of an allowances account, and when a loan becomes uncollectable, it is written off against the related allowances 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 an allowances account. The amount of the reversal is recognized in profit or loss.

3.4 Investments in Subsidiaries

Investments in subsidiaries are accounted at cost method in accordance with Korean IFRS 1027. The Company determines at each reporting period whether there is any objective evidence that the investments in the subsidiaries are impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the subsidiaries and its carrying value.

3.5 Property and Equipment

Recognition and Measurement

All property and equipment that qualify for recognition as an asset are measured at its 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. When part of an item of an asset has a useful life different from that of the entire asset, it is recognized as a separate asset.

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 Company. The depreciable amount of an asset is determined after deducting its residual value.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method and estimated useful lives of the assets are as follows:

Property and equipment	Depreciation method	Estimated useful life
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.

3.6 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 membership right, 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 life
Software	Straight-line	4 years
Others	Straight-line	4 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 Company 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.

3.7 Impairment of Non-financial Assets

The Company 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 Company estimates the recoverable amount of the asset.

The recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Company 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, and only 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.

3.8 Provisions

Provisions are recognized when the Company 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 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.

3.9 Equity Instrument Issued by the Company

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 from the equity.

3.10 Revenue Recognition

Revenue shall be recognized when all the following conditions have been satisfied:

- a) The amount of revenue can be measured reliably.
- b) It is probable that the economic benefits associated with the transaction will flow to the company.
- c) Specific conditions are satisfied for activities.

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 Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

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.

Fee and commission income

Fee and commission income is recognized on an accrual basis in accordance with the substance of transaction.

Dividend income

Dividend income is recognized when the shareholder's right to receive payment is established.

3.11 Employee Compensation and Benefits

3.11.1 Post-employment benefit:

Defined benefit plans

All post-employment benefit, other than defined contribution plans, is classified as defined benefit plans. The amount recognized as a defined benefit liability is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period.

The present value of the defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit method. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The currency and term of the corporate bonds are consistent with the currency and estimated term of the post-employment benefit obligations. Actuarial gains and losses including experience adjustments and the effects of changes in actuarial assumptions are recognized in other comprehensive income.

When the fair value of plan assets deducted from the total of the present value of the defined benefit obligation results in an asset, it is recognized to the extent of any cumulative unrecognized past service cost and 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 arises when the Company introduces a defined benefit plan that attributes to past service or changes the benefits payable for past service under an existing defined benefit plan. Such past service cost is recognized immediately in profit or loss.

Defined contribution plans

The contributions are recognized as employee benefit expense when they are due.

3.11.2 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 Company 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.

3.11.3 Share-based payment

The Company has share grant programs to directors and employees of the Company. When the stock grants are exercised, the Company can either select to issue new shares or distribute treasury shares, or compensate the difference in fair value of shares and exercise price.

For a share-based payment transaction in which the terms of the arrangement provide the Company with the choice of whether to settle in cash or by issuing equity instruments, the Company determined that it has a present obligation to settle in cash because the Company has a past practice and a stated policy of settling in cash. Therefore, the Company accounts for the transaction in accordance with the requirements of cash-settled share-based payment transactions.

The Company measures the services acquired and the liability incurred at fair value, and the fair value is recognized as expense and accrued expenses over the vesting period. Until the liability is settled, the Company 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 year.

3.11.4 Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either (a) the Company decision to terminate an employee's employment before the normal retirement date; or (b) an employee's decision to accept an offer of benefits in exchange for the termination of employment. The Company recognizes liabilities and expenses for termination benefits at the earlier of the following dates: when the Company can no longer withdraw the offer of those benefits and when the Company 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 which are not expressed to be settled wholly before 12 months after the end of the reporting period are discounted to present values.

3.12 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 and included in profit or loss for the year, except to the extent that the tax arises from (a) a transaction or event which is recognized either in other comprehensive income or directly in equity and (b) a business combination.

Current income tax

Current income tax is the amount of income taxes 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 expenses 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 Company offsets current income tax assets and current income tax liabilities if, and only if, the Company (a) has a legally enforceable right to offset the recognized amounts and (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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 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.

The carrying amount of a deferred income tax asset is reviewed at the end of each reporting period. The Company reduces the carrying amount of a deferred income tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to be applied to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred income tax liabilities and deferred income tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Company offsets deferred income tax assets and deferred income tax liabilities when the Company 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.

Uncertain tax positions

Uncertain tax positions arise from a claim for rectification brought by the Company, an appeal for a refund of tax levied by the tax authorities, or others due to different interpretation of tax laws or others. The Company recognizes its uncertain tax positions in the separate 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.

3.13 Earnings per Share

The Company calculates basic earnings per share amounts and diluted earnings per share amounts for profit or loss attributable to ordinary equity holders and presents them in the statement of comprehensive income. Basic earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period. For the purpose of calculating diluted earnings per share, the Company adjusts profit or loss attributable to ordinary equity holders and the weighted average number of shares outstanding for the effects of all dilutive potential ordinary shares including convertible bond and share option.

3.14 Operating Segments

The Company is composed of a single operating segment. Therefore, disclosures on segments are omitted in accordance with Korean IFRS 1108, Operating Segments.

4. Financial Risk Management

4.1 Summary

4.1.1 Overview of Financial Risk Management Policy

The financial risks that the Company is exposed to are credit risk, market risk, liquidity risk and others.

The note regarding financial risk management provides information about the risks that the Company is exposed to, including the objectives, policies, assessment and management process of risks. Additional quantitative information is disclosed throughout the separate financial statements.

The Company's risk management system focuses on increasing transparency, developing the risk management environment, and the preemptive response to risk due to rapid changes in the financial environment to support the Company's long-term strategy and business decisions efficiently. Credit risk, market risk and liquidity risk have been recognized as the Company's key risks. These risks are measured and managed in Internal Capital or VaR (Value at Risk) using a statistical method.

4.1.2 Risk Management Organization

Risk Management Committee

The Risk Management Committee establishes risk management strategies in accordance with the directives of the Board of Directors and determines the Company's target risk appetite. The committee approves significant risk matters and reviews the level of risks that the Company is exposed to and the appropriateness of the Company'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 Company's risk management.

Risk Management Division

The Risk Management Division is responsible for conducting detailed policies, procedures and working processes relating to the Company'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 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 is considered.

4.2.2 Credit Risk Management

The Company measures expected losses on assets that are subject to credit risk management and uses it as a management indicator.

4.2.3 Maximum Exposure to Credit Risk

The Company's maximum exposures of financial instruments 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
Due from financial institutions	₩ 115,065	₩ 324,947
Loans	29,415	-
Other financial assets	18,625	16,704
	₩ 163,105	₩ 341,651

4.2.4 Credit Risk of Loans

The Company maintains an allowance for loan losses associated with credit risk on loans to manage its credit risk.

The Company recognizes an impairment loss on loans carried at amortized cost when there is any objective indication of impairment. Under Korean IFRS, an impairment loss is based on losses incurred at the end of the reporting period. Therefore, the Company does not recognize losses expected as a result of future events. The Company measures inherent incurred losses on loans and presents them in the separate financial statements through the use of an allowance account which is offset against the related loans.

Loans are classified as follows:

(In millions of Korean won)

Loans	2016		2015	
	Corporate loans	Percentage (%)	Corporate loans	Percentage (%)
Neither past due nor impaired	₩ 29,415	100.00	₩ -	-
Past due but not impaired	-	-	-	-
Impaired	-	-	-	-
	29,415	100.00	-	-
Less: Allowances	-	-	-	-
Carrying amount	₩ 29,415	100.00	₩ -	-

Credit quality of loans that are neither past due nor impaired are as follows:

(In millions of Korean won)

	Corporate Loans			
	2016	2015		
Grade 1	₩ 29,415	₩ -		-
Grade 2	-	-		-
Grade 3	-	-		-
Grade 4	-	-		-
Grade 5	-	-		-
	₩ 29,415	₩ -		-

Credit quality of loans graded according to the probability of default are as follows:

	Range of PD(%) (Probability of Default)
Grade 1	0.0 ~ 1.0
Grade 2	1.0 ~ 5.0
Grade 3	5.0 ~ 15.0
Grade 4	15.0 ~ 30.0
Grade 5	30.0 ~

4.2.5 Credit Risk Concentration Analysis

Details of the Company's loans by country as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016					
	Corporate loans		%	Allowances		Carrying amount
Korea	₩	29,415	100.00	₩	-	₩ 29,415
	₩	29,415	100.00	₩	-	₩ 29,415

(In millions of Korean won)

	2015					
	Corporate loans		%	Allowances		Carrying amount
Korea	₩	-	-	₩	-	₩ -
	₩	-	-	₩	-	₩ -

Details of the Company'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	₩	29,415	100.00	₩	-	₩ 29,415
	₩	29,415	100.00	₩	-	₩ 29,415

(In millions of Korean won)

	2015					
	Loans		%	Allowances		Carrying amount
Financial institutions	₩	-	-	₩	-	₩ -
	₩	-	-	₩	-	₩ -

4.3 Liquidity Risk

4.3.1 Overview of Liquidity Risk

Liquidity risk is a risk that the Company becomes insolvency due to uncertain liquidity caused by unexpected cash outflows, or a risk of borrowing high interest debts or disposal of liquid and other assets at a substantial discount. The Company manages its liquidity risk through analysis of the contractual maturity of all financial assets and liabilities. The Company discloses them by maturity group; such as, on demand, up to one month, between over one month and three months, between over three months and 12 months, between over one year and five years, and over five years.

Cash flows disclosed for the maturity analysis are undiscounted contractual principal and interest to be received (paid) and; thus, are not identical to the amount in the financial statements that are based on the present value of expected cash flows in some cases. 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 the maturity.

4.3.2. Liquidity Risk Management

The liquidity risk is managed by liquidity management principles and related guidelines which are applied to the risk management policies and procedures that address all the possible risks that arise from the overall business of the Company.

4.3.3. Analysis of Remaining Contractual Maturity of Financial Assets and Liabilities

The remaining contractual maturity of financial assets and liabilities as of December 31, 2016 and 2015, are 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	₩ 115,173	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 115,173
Financial assets designated at fair value through profit or loss ²	-	-	-	-	-	246,656	246,656
Loans	-	29,415	-	-	-	-	29,415
Other financial assets	-	1	-	18,197	-	-	18,198
	₩ 115,173	₩ 29,416	₩ -	₩ 18,197	₩ -	₩ 246,656	₩ 409,442

(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 liabilities							
Debts	₩ -	₩ 547	₩ 180,517	₩ 170,026	₩ -	₩ -	₩ 351,090
Debentures	-	1,322	166,637	50,477	2,691,848	852,433	3,762,717
Other financial liabilities	-	3,831	-	-	-	-	3,831
	₩ -	₩ 5,700	₩ 347,154	₩ 220,503	₩ 2,691,848	₩ 852,433	₩ 4,117,638

(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	₩ 325,199	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 325,199
Loans	-	-	-	-	-	99,118	99,118
Other financial assets ²	-	1	-	16,565	-	-	16,566
	₩ 325,199	₩ 1	₩ -	₩ 16,565	₩ -	₩ 99,118	₩ 440,883
Financial liabilities							
Debentures	₩ -	₩ -	₩ 10,868	₩ 181,428	₩ 1,295,080	₩ 320,804	₩ 1,808,180
Other financial liabilities	-	3,288	-	-	-	-	3,288
	₩ -	₩ 3,288	₩ 10,868	₩ 181,428	₩ 1,295,080	₩ 320,804	₩ 1,811,468

¹ The amount of ₩3 million, which is restricted amount due from the financial institutions as of December 31, 2016 and 2015, is excluded.

² Financial assets designated at fair value through profit or loss and hybrid capital instruments are included in the 'Over 5 years' category according to their remaining contractual maturity because the assets' point of sale is uncertain.

4.4 Market Risk

4.4.1 Concept

Market risk is the risk of possible losses which arise from changes in market factors; such as, interest rate, stock price, foreign exchange rate and other market factors that affect the fair value or future cash flows of financial instruments. The most significant risk of the Company is interest rate risk.

4.4.2 Interest Rate Risk

Definition of interest rate risk

Interest rate risk is the risk that the fair value or future cash flows arising from interest income and interest cost that will fluctuate due to changes in interest.

Observation method and management indicator on interest rate risk

The main objective of interest rate risk management is to protect asset values against interest rate fluctuations. The Company manages the risk through Value at Risk measurement and management for the interest rate.

Interest Rate VaR

Interest rate VaR is the maximum possible loss due to interest rate risk at a 99.9% 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	₩ 90,443	₩ 43,091

4.5 Capital Adequacy

The Company complies with the capital adequacy standard established by the Financial Services Commission. The capital adequacy standard is based on Basel III published by Basel Committee on Banking Supervision in Bank 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 5.375%(2015 : 4.5%), a minimum Tier 1 ratio of 6.875%(2015: 6.0%) and a minimum Total Regulatory Capital ratio of 8.875%(2015: 8.0%) as of December 31, 2016.

The Group's equity capital is classified into three categories in accordance with the Supervisory Regulations and Detailed Supervisory Regulations on Financial Holding Companies as below:

- Common Equity Tier 1 Capital: Common equity Tier 1 Capital represents the issued capital that takes the first and proportionately greatest share of any losses and represents the most subordinated claim in liquidation of the Group, and not repaid outside of liquidation. It includes common shares issued, capital surplus, retained earnings, non-controlling interests of consolidated subsidiaries, accumulated other comprehensive income, other capital surplus and others.
- Additional Tier 1 Capital: Additional Tier 1 Capital includes (i) perpetual instruments issued by the Group that meet the criteria for inclusion in Additional Tier 1 capital, and (ii) stock surplus resulting from the issue of instruments included in Additional Tier 1 capital and others.
- Tier 2 Capital : Tier 2 Capital represents the capital that takes the proportionate share of losses in the liquidation of the Group. Tier 2 Capital includes a fund raised by issuing subordinated debentures maturing in not less than 5 years that meet the criteria for inclusion in Additional Tier 2 capital, and the allowance for loan losses which are accumulated for assets classified as normal or precautionary as a result of classification of asset soundness in accordance with Regulation on Supervision of Financial Holding Companies and others.

Risk weighted asset means the inherent risks in the total assets held by the Group. The Group calculates risk weighted asset by each risk (credit risk, market risk, and operational risk) based on the Supervisory Regulations and Detailed Supervisory Regulations on Financial Holding Companies and uses it for BIS ratio calculation.

The Group assesses and monitors 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.

Internal Capital is the amount of capital to prevent the inability of payment due to unexpected loss in the future. The Group measures, allocates and monitors Internal Capital by risk type and subsidiaries.

The Risk Management Council of the Company determines the Group's risk appetite and allocates Internal Capital by risk type and subsidiary. Each subsidiary efficiently operates its capital within a range of allocated Internal Capital. The Risk Management Department of the Company monitors 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 due to new business or business expansion.

Details of the Group's capital adequacy calculation in line with Basel III, as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
Equity Capital:	₩	31,103,291	₩	29,140,025
Tier 1 Capital		29,264,494		25,585,979
Common Equity Tier 1 Capital		29,013,954		25,351,910
Additional Tier 1 Capital		250,540		234,069
Tier 2 Capital		1,838,797		3,554,046
Risk-weighted assets:		203,649,442		188,212,825
Equity Capital (%):		15.27		15.48
Tier 1 Capital (%)		14.37		13.59
Common Equity Tier 1 Capital (%)		14.25		13.47

5. Financial Assets and Financial Liabilities

5.1 Classification and Fair value of Financial Instruments

The carrying amounts and fair value of financial assets and liabilities by category as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016	
	Carrying amount	Fair value
Financial assets		
Financial assets designated at fair value through profit or loss	₩ 246,656	₩ 246,656
Loans and receivables		
Cash and due from financial institutions	115,065	115,065
Loans	29,415	29,415
Other financial assets	18,625	18,625
	₩ 409,761	₩ 409,761
Financial liabilities		
Financial liabilities at amortized cost		
Debts	₩ 350,000	₩ 350,000
Debentures	3,474,200	3,465,441
Other financial liabilities	10,450	10,450
	₩ 3,834,650	₩ 3,825,891

(In millions of Korean won)

	2015	
	Carrying amount	Fair value
Financial assets		
Financial assets designated at fair value through profit or loss	₩ 99,118	₩ 99,118
Loans and receivables		
Cash and due from financial institutions	324,947	324,947
Other financial assets	16,704	16,704
	₩ 440,769	₩ 440,769
Financial liabilities		
Financial liabilities at amortized cost		
Debentures	₩ 1,647,117	₩ 1,678,308
Other financial liabilities	6,501	6,501
	₩ 1,653,618	₩ 1,684,809

Fair value is the amount for which an asset could be exchanged, or a liability could be settled, between knowledgeable, willing parties in an arm's length transaction. For each class of financial assets and financial liabilities, the Company discloses the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount at the end of each reporting period. The best evidence of fair value of financial instruments is quoted price in an active market.

Methods of determining fair value of 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 a 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.
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 external professional valuation institution where quoted prices are not available. The institutions use one or ore of the following valuation techniques including DCF Model, Free Cash Flow to Equity Model, Imputed Market Value Model, Dividend Discount Model, Risk Adjusted Discount Rate Method, and Net Asset Value Method.
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 Company uses internally developed valuation models that are widely used by market participants to determine fair values of plain vanilla OTC derivatives including options, interest rate swaps, and currency swaps, based on observable market parameters. However, some complex financial instruments are valued using appropriate models developed from generally accepted market valuation models including the Finite Difference Method and the Monte Carlo Simulation or valuation results from independent external professional valuation institution.
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.
Debts	Carrying amount of overdraft in foreign currency is regarded as representative of fair value because they do not have a fixed maturity and are payable on demand. Fair value of other debts is determined using a DCF model discounting contractual future cash flows at an appropriate discount rate.
Debentures	Fair value is determined by using the valuations of external professional valuation institution, which are calculated using market inputs.
Other financial assets and 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.

Fair value hierarchy

The Company 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 Company classifies and discloses fair value of the financial instruments into the three-level hierarchy as follows:

Level 1 : The fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 : The fair values are based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 : The fair values are based on unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

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 measured at fair value in the statement of financial position as of December 31, 2016 and 2015, is as follows:

(In millions of Korean won)

	2016			
	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
Financial assets				
Financial assets designated at fair value through profit or loss				
Derivative-linked securities	₩	- ₩	- ₩	246,656 ₩
				246,656

(In millions of Korean won)

	2015			
	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
Financial assets				
Financial assets designated at fair value through profit or loss				
Derivative-linked securities	₩	- ₩	- ₩	99,118 ₩
				99,118

Fair value hierarchy of financial assets and liabilities whose fair values are disclosed

The fair value hierarchy of financial assets and liabilities whose fair values are disclosed as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016				
	Fair value hierarchy				Total
	Level 1	Level 2	Level 3		
Financial assets					
Cash and due from financial institutions ¹	₩	- ₩	115,065 ₩	- ₩	115,065
Loans ²		-	-	29,415	29,415
Other financial assets ³		-	-	18,625	18,625
	₩	- ₩	115,065 ₩	48,040 ₩	163,105
Financial liabilities					
Debts ⁴	₩	- ₩	350,000 ₩	- ₩	350,000
Debentures		-	3,465,441	-	3,465,441
Other financial liabilities ³		-	-	10,450	10,450
	₩	- ₩	3,815,441 ₩	10,450 ₩	3,825,891

(In millions of Korean won)

	2015				
	Fair value hierarchy				Total
	Level 1	Level 2	Level 3		
Financial assets					
Cash and due from financial institutions ¹	₩	- ₩	324,947 ₩	- ₩	324,947
Other financial assets ³		-	-	16,704	16,704
	₩	- ₩	324,947 ₩	16,704 ₩	341,651
Financial liabilities					
Debentures	₩	- ₩	1,678,308 ₩	- ₩	1,678,308
Other financial liabilities ³		-	-	6,501	6,501
	₩	- ₩	1,678,308 ₩	6,501 ₩	1,684,809

¹ Because due from financial institutions classified as level 2 are deposits on demand, we regarded the carrying amount as representative of fair value.

² Because loans classified as level 3 are loans with residual maturity of less than one month, we regarded the carrying amount as representative of fair value.

³ Other financial assets and other financial liabilities classified as level 3 are regarded as the carrying amount as representative of fair value.

⁴ Debts classified as level 2 are regarded as the carrying amount as representative of fair value.

Valuation techniques and inputs used in the fair value measurement

Financial assets and liabilities whose carrying amount is a reasonable approximation of fair value are not subject to disclose valuation techniques and inputs.

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 liabilities				
Debtentures	₩ 3,465,441	₩ 1,678,308	DCF model	Discount rate

5.2 Level 3 of the Fair Value Hierarchy Disclosure

5.2.1 Valuation Policy and Process for Fair Value Measurement Categorized Within Level 3

The Company uses external, independent and qualified professional valuer's valuation to determine the fair value of the Company's assets at the end of every reporting period.

5.2.2 Changes in fair value (Level 3) measured using valuation technique based on assumption that is unobservable in the market

Details of 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 assets designated at fair value through profit or loss	
Beginning balance	₩	99,118
Total gains or losses		
- Profit or loss for the period		(2,462)
- Other comprehensive income		-
Purchases		150,000
Sales		-
Issues		-
Settlements		-
Transfers into Level 3		-
Transfers out of Level 3		-
Ending balance	₩	246,656

(In millions of Korean won)

	2015	
	Financial assets at fair value through profit or loss	
	Financial assets designated at fair value through profit or loss	
Beginning balance	₩	-
Total gains or losses		
- Profit or loss for the period		(882)
- Other comprehensive income		-
Purchases		100,000
Sales		-
Issues		-
Settlements		-
Transfers into Level 3		-
Transfers out of Level 3		-
Ending balance	₩	99,118

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 profit or loss from financial instruments held at the end of the reporting period in the statement of comprehensive income for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		
	Gains from financial investments at fair value through profit or loss	Other operating income	Net interest income
Total gains or losses included in profit or loss for the period	₩ (2,462)	₩ -	₩ -
Total gains or losses for the period included in profit or loss or financial instruments held at the end of the reporting period	₩ (2,462)	₩ -	₩ -

(In millions of Korean won)

	2015		
	Losses from financial investments at fair value through profit or loss	Other operating income	Net interest income
Total gains or losses included in profit or loss for the period	₩ (882)	₩ -	₩ -
Total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period	(882)	-	-

5.2.3 Sensitivity Analysis of Changes in Unobservable Inputs

Information about fair value measurements using unobservable inputs as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016					
	Fair value	Valuation technique	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	₩ 246,656	Hull and White Model, Monte Carlo Simulation, DCF Model	Discount rate, Volatility of interest rate	Discount rate, Volatility of interest rate	2.56-4.92 0.54	The lower the discount rate, the higher the fair value The higher the volatility, the higher the fair value fluctuation

(In millions of Korean won)

	2015					
	Fair value	Valuation technique	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	₩ 99,118	Hull and White Model, Monte Carlo Simulation, DCF Model	Discount rate, Volatility of interest rate	Discount rate, Volatility of interest rate	2.75~5.07 0.45	The lower the discount rate, the higher the fair value The higher the volatility, the higher the fair value fluctuation

Sensitivity analysis of changes in unobservable inputs

Sensitivity analysis of financial instruments is performed to measure favorable and unfavorable changes in the fair value of financial instruments which are affected by the 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 most unfavorable outcome. There are derivative-linked securities whose fair value changes are recognized in profit or loss.

The results of the sensitivity analysis from changes in inputs are as follows:

(In millions of Korean won)

	2016			
	Recognition in profit or loss		Other comprehensive income	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Financial assets				
Financial assets designated at fair value through profit or loss				
Derivative-linked securities ¹	₩ 8,827	₩ (8,577)	₩ -	₩ -

(In millions of Korean won)

	2015			
	Recognition in profit or loss		Other comprehensive income	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Financial assets				
Financial assets designated at fair value through profit or loss				
Derivative-linked securities ¹	₩ 6,422	₩ (5,867)	₩ -	₩ -

¹ For equity securities, the changes in fair value are calculated by shifting principal unobservable input parameters; such as, discount rate, the correlation of rates of long-term interest rate and short-term interest rate, or the volatility of the interest rate is shifted by $\pm 1\%$.

5.3 Offsetting Financial Assets and Financial Liabilities

The Company entered into master netting agreement with the counterparty through International Derivatives Swaps and Dealers Association (“ISDA”) or other similar agreements in relation to Over-the-counter derivatives and foreign exchange spot transaction. Repurchase agreements and stock lending and borrowing transactions of the Company are offset through similar netting agreements as derivatives. In accordance with the master netting agreement, the contract with the counterparty is terminated in certain circumstances; such as, bankruptcy or insolvency. At the termination, the receivables and payment of the counterparty offset, and receive/pay the net balance from/to the counterparty. Besides the financial instruments mentioned above, the Company has other financial instruments; such as, domestic exchange transactions and marketable securities, receivables and payable relating to derivative instruments. These financial instruments are settled at net basis in accordance with the legal net obligations; therefore, they are presented in the statement of financial position after offset.

5.3.1 Details of financial assets subject to offsetting, enforceable master netting arrangements or similar agreement as of December 31, 2016 are as follows:

(In millions of Korean won)

	2016					
	Gross assets	Gross liabilities offset	Net amounts presented in the statement of financial position	Amount not offset		Net amount
				Financial instruments	Cash collateral	
Reverse repurchase agreements	₩ 29,415	₩ -	₩ 29,415	₩ (29,415)	₩ -	₩ -
	₩ 29,415	₩ -	₩ 29,415	₩ (29,415)	₩ -	₩ -

5.3.2 The fair value of collateral available to sell or repledge, sold or repledged, regardless of debtor's default, as of December 31, 2016, are as follows:

(In millions of Korean won)

	2016		
	Fair value of collateral held	Fair value of collateral sold or repledged	Total
Securities	₩ 30,887	₩ -	₩ 30,877

6. Due from Financial Institution

Details of due from financial institution as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

		Financial Institution	Interest rate (%) (As of December 31, 2016)	2016	2015
Due from financial institution in Korean won	Due from banks	Kookmin Bank	0.00 ~ 1.03	₩ 57,967	₩ 324,947
		Standard Chartered Bank	1.00	863	-
		KEB Hana Bank	1.15	3,294	-
	Due from others	The Korea Securities Finance Corporation	1.29	52,941	-
				₩ 115,065	₩ 324,947

Details of a maturity analysis of due from financial institution, excluding restricted cash, as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016					
	Up to 3 month	3~6 months	6~12 months	1-3 years	Over 3 years	Total
Due from financial institution in Korean won	₩ 115,062	₩ -	₩ -	₩ -	₩ -	₩ 115,062

(In millions of Korean won)

	2015					
	Up to 3 month	3~6 months	6~12 months	1-3 years	Over 3 years	Total
Due from financial institution in Korean won	₩ 324,944	₩ -	₩ -	₩ -	₩ -	₩ 324,944

Restricted cash from financial institution as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	Financial Institution	2016	2015	Reason for restriction
Due from financial institution in Korean won	Kookmin Bank	₩ 3	₩ 3	Pledged as collateral for the overdraft establishment

7. Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or losses as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016	2015
Financial assets designated at fair value through profit or loss		
Derivative-linked securities	₩ 246,656	₩ 99,118

8. Loans

Details of loans as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016	2015
Loans	₩ 29,415	₩ -
Less: Allowances for loan losses	-	-
Carrying amount	₩ 29,415	₩ -

Details of loan types and customer types of loans to customers, other than banks, as of December 31, 2016 is as follows:

(In millions of Korean won)

	2016			
	Retail	Corporate	Credit card	Total
Reverse repurchase agreements	₩ -	₩ 29,415	₩ -	₩ 29,415
	-	29,415	-	29,415
Proportion (%)	-	100.00	-	100.00
Less: Allowances	-	-	-	-
	₩ -	₩ 29,415	₩ -	₩ 29,415

9. Investments in Subsidiaries

Details of subsidiaries as of December 31, 2016, are as follows:

Name of subsidiary	Industry	Location
Kookmin Bank	Banking and domestic, foreign exchange transaction	Korea
KB Securities Co., Ltd.	Financial investment	Korea
KB Kookmin Card Co., Ltd.	Credit card	Korea
KB Life Insurance Co., Ltd.	Life insurance	Korea
KB Asset Management Co., Ltd.	Investment advisory and collective investment	Korea
KB Capital Co., Ltd.	Financial leasing	Korea
KB Savings Bank Co., Ltd.	Savings banking	Korea
KB Real Estate Trust Co., Ltd.	Real estate trust management	Korea
KB Investment Co., Ltd.	Capital investment	Korea
KB Credit Information Co., Ltd.	Collection of receivables and credit investigation	Korea
KB Data System Co., Ltd.	System software, development and supply	Korea

Investments in subsidiaries as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won, except for shares and ownership %)

Name of subsidiary	Number of Issued Shares	Ownership(%)	Carrying amount	
			2016	2015
	As of December 31, 2016			
Kookmin Bank	404,379,116	100.00	₩ 14,821,721	₩ 14,821,721
KB Securities Co., Ltd.	298,620,424	100.00	3,342,391	-
KB Kookmin Card Co., Ltd.	92,000,000	100.00	1,953,175	1,953,175
KB Investment & Securities Co., Ltd. ¹	-	-	-	507,212
KB Life Insurance Co., Ltd.	91,200,000	100.00	485,314	485,314
KB Asset Management Co., Ltd.	7,667,550	100.00	96,312	96,312
KB Capital Co., Ltd.	11,180,630	52.02	279,870	279,870
KB Savings Bank Co., Ltd.	8,001,912	100.00	157,544	157,544
KB Real Estate Trust Co., Ltd.	16,000,000	100.00	121,553	121,553
KB Investment Co., Ltd.	8,951,797	100.00	104,910	104,910
KB Credit Information Co., Ltd.	1,252,400	100.00	23,621	23,621
KB Data System Co., Ltd.	800,000	100.00	6,334	6,334
			₩ 21,392,745	₩ 18,557,566

¹ In 2016, the Company acquired 100% shares of Hyundai Securities Co., Ltd. by acquisition and comprehensive exchange of shares and also merged with KB Investment & Securities Co., Ltd. and changed the name to KB Securities Co., Ltd.

Changes in accumulated impairment losses on investments in subsidiaries for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016				
	Beginning	Impairment	Others	Ending	
Accumulated impairment losses on investments in subsidiaries ¹	₩ (51,742)	₩ -	₩ -	₩ (51,742)	

(In millions of Korean won)

	2015				
	Beginning	Impairment	Others	Ending	
Accumulated impairment losses on investments in subsidiaries ¹	₩ (51,742)	₩ -	₩ -	₩ (51,742)	

¹The industry environment of savings banks has deteriorated continuously and their performance fell short of expectations primarily due to a decline of benchmark interest rate. Considering the recent downturn, the Company recognized the impairment loss on investment in KB Savings Bank Co., Ltd.

10. Investments in Associates

Details of investments in associates as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

Name of associates	2016					
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
KB Insurance Co., Ltd.	39.81	₩ 1,053,690	₩ 1,393,320	₩ 1,053,690	Non-life insurance	Korea

(In millions of Korean won)

Name of associates	2015					
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
KB Insurance Co., Ltd.	33.29	₩ 883,065	₩ 1,077,380	₩ 883,065	Non-life insurance	Korea

Changes in investments in associates for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

Name of associates	2016					
	Beginning	Acquisition	Disposal	Impairment	Ending	
KB Insurance Co., Ltd.	₩ 883,065	₩ 170,625	₩ -	₩ -	₩ 1,053,690	
Hyundai Securities Co., Ltd.	-	1,349,850	(1,349,850)	-	-	
	₩ 883,065	₩ 1,520,475	₩ (1,349,850)	₩ -	₩ 1,053,690	

(In millions of Korean won)

Name of associates	2015					
	Beginning	Acquisition	Disposal	Impairment	Ending	
KB Insurance Co., Ltd.	₩ -	₩ 883,065	₩ -	₩ -	₩ 883,065	

11. Property and Equipment

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
Leasehold improvements	₩ 791	₩ (679)	₩ -	₩ 112
Equipment and others	5,046	(4,689)	-	357
	₩ 5,837	₩ (5,368)	₩ -	₩ 469

(In millions of Korean won)

	2015			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Leasehold improvements	₩ 771	₩ (573)	₩ -	₩ 198
Equipment and others	4,903	(4,523)	-	380
	₩ 5,674	₩ (5,096)	₩ -	₩ 578

The 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	Depreciation	Ending
Leasehold improvements	₩ 198	₩ 20	₩ (106)	₩ 112
Equipment and vehicles	380	143	(166)	357
	₩ 578	₩ 163	₩ (272)	₩ 469

(In millions of Korean won)

	2015			
	Beginning	Acquisition	Depreciation	Ending
Leasehold improvements	₩ 104	₩ 250	₩ (156)	₩ 198
Equipment and vehicles	410	151	(181)	380
	₩ 514	₩ 401	₩ (337)	₩ 578

12. 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
Software	₩ 2,615	₩ (2,450)	₩ -	₩ 165
Membership rights	9,531	-	(1,962)	7,569
Other intangible assets	3,657	(3,299)	-	358
	₩ 15,803	₩ (5,749)	₩ (1,962)	₩ 8,092

(In millions of Korean won)

	2015			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Software	₩ 2,612	₩ (2,237)	₩ -	₩ 375
Membership rights	9,439	-	(2,060)	7,379
Other intangible assets	3,657	(2,983)	-	674
	₩ 15,708	₩ (5,220)	₩ (2,060)	₩ 8,428

The changes in intangible assets for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016					
	Beginning	Acquisition	Disposal	Amortization	Reversal ¹	Ending
Software	₩ 375	₩ 3	₩ -	₩ (213)	₩ -	₩ 165
Membership rights	7,379	104	(12)	-	98	7,569
Other intangible assets	674	-	-	(316)	-	358
	₩ 8,428	₩ 107	₩ (12)	₩ (529)	₩ 98	₩ 8,092

(In millions of Korean won)

	2015					
	Beginning	Acquisition	Disposal	Amortization	Reversal ¹	Ending
Software	₩ 549	₩ 42	₩ -	₩ (216)	₩ -	₩ 375
Membership rights	7,509	102	(157)	-	(75)	7,379
Other intangible assets	626	342	-	(294)	-	674
	₩ 8,684	₩ 486	₩ (157)	₩ (510)	₩ (75)	₩ 8,428

¹ Impairment loss for membership rights of other intangible assets with indefinite useful life was recognized when its recoverable amount is lower than its carrying amount and reversal of impairment losses was recognized when its recoverable amount is higher than its carrying amount.

The changes in accumulated impairment losses on intangible assets for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016			
	Beginning	Reversal	Disposal	Ending
Accumulated impairment losses on intangible assets	₩ (2,060)	₩ 98	₩ -	₩ (1,962)

(In millions of Korean won)

	2015			
	Beginning	Impairment	Disposal	Ending
Accumulated impairment losses on intangible assets	₩ (1,988)	₩ (75)	₩ 3	₩ (2,060)

13. Deferred Income Tax Assets and Liabilities

Details of deferred income tax assets and liabilities as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		
	Assets	Liabilities	Net amounts
Share-based payments	₩ 2,189	₩ -	₩ 2,189
Membership rights	475	-	475
Defined benefit obligation	1,267	-	1,267
Plan assets	-	(736)	(736)
Short-term employee benefits	381	-	381
Others	1,028	-	1,028
	5,340	(736)	4,604
Offsetting of deferred tax assets and liabilities	(736)	736	-
	₩ 4,604	₩ -	₩ 4,604

(In millions of Korean won)

	2015		
	Assets	Liabilities	Net amounts
Share-based payments	₩ 2,270	₩ -	₩ 2,270
Membership rights	499	-	499
Defined benefit obligation	1,308	-	1,308
Plan assets	-	(502)	(502)
Short-term employee benefits	309	-	309
Others	631	-	631
	5,017	(502)	4,515
Offsetting of deferred tax assets and liabilities	(502)	502	-
	₩ 4,515	₩ -	₩ 4,515

Unrecognized deferred income tax assets

No deferred income tax assets have been recognized for the deductible temporary difference of ₩ 2,896,164 million, ₩ 66,162 million and ₩ 51,742 million associated with investments in subsidiaries, tax loss carryforwards and impairment losses on investments in subsidiaries, respectively, as of December 31, 2016, due to the uncertainty that all these will be realized in the future.

Unrecognized deferred income tax liabilities

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩ 2,395,805 million associated with investments in subsidiaries as of December 31, 2016, due to the following reasons:

- The Company is able to control the timing of the reversal of the temporary difference.
- It is probable that the temporary difference will not reverse in the foreseeable future.

The 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				
Share-based payments	₩ 9,380	₩ 4,059	₩ 3,724	₩ 9,045
Membership rights	2,061	101	2	1,962
Investments in subsidiaries	2,896,164	-	-	2,896,164
Defined benefit obligation	5,405	2,073	1,904	5,236
Short-term employee benefits	1,279	1,279	1,573	1,573
Tax loss carryforwards	66,162	-	-	66,162
Impairment losses on investments in subsidiaries	51,742	-	-	51,742
Others	2,608	1,723	3,364	4,249
	3,034,801	₩ 9,235	₩ 10,567	3,036,133
Unrecognized deferred income tax assets:				
Investments in subsidiaries	2,896,164			2,896,164
Tax loss carryforwards	66,162			66,162
Impairment losses on investments in subsidiaries	51,742			51,742
	20,733			22,065
Tax rate (%)	24.2			24.2
Deferred income tax assets from deductible temporary differences	₩ 5,017			₩ 5,340
Taxable temporary differences				
Investments in subsidiaries	₩ (2,395,805)	₩ -	₩ -	₩ (2,395,805)
Plan assets	(2,073)	(2,073)	(3,041)	(3,041)
	(2,397,878)	(2,073)	(3,041)	(2,398,846)
Unrecognized deferred income tax liabilities:				
Investments in subsidiaries	(2,395,805)			(2,395,805)
	(2,073)			(3,041)
Tax rate (%)	24.2			24.2
Deferred income tax liabilities from taxable temporary differences	₩ (502)			₩ (736)

(In millions of Korean won)

	2015			
	Beginning	Decrease	Increase	Ending
Deductible temporary differences				
Share-based payments	₩ 9,136	₩ 1,555	₩ 1,799	₩ 9,380
Membership rights	1,989	3	75	2,061
Investments in subsidiaries	2,896,164	-	-	2,896,164
Defined benefit obligation	6,401	4,178	3,182	5,405
Short-term employee benefits	1,179	1,179	1,279	1,279
Tax loss carryforwards	66,162	-	-	66,162
Impairment losses on investments in subsidiaries	51,742	-	-	51,742
Others	1,749	1,743	2,602	2,608
	3,034,522	₩ 8,658	₩ 8,937	3,034,801
Unrecognized deferred income tax assets:				
Investments in subsidiaries	2,896,164			2,896,164
Tax loss carryforwards	66,162			66,162
Impairment losses on investments in subsidiaries	51,742			51,742
	20,454			20,733
Tax rate (%)	24.2			24.2
Deferred income tax assets from deductible temporary differences	₩ 4,950			₩ 5,017
Taxable temporary differences				
Investments in subsidiaries	₩ (2,395,805)	₩ -	₩ -	₩ (2,395,805)
Plan assets	(3,556)	(4,179)	(2,696)	(2,073)
	(2,399,361)	₩ (4,179)	(2,696)	(2,397,878)
Unrecognized deferred income tax liabilities:				
Investments in subsidiaries	(2,395,805)			(2,395,805)
	(3,556)			(2,073)
Tax rate (%)	24.2			24.2
Deferred income tax liabilities from taxable temporary differences	₩ (861)			₩ (502)

14. 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				
Accrued income	₩	663	₩	341
Guarantee deposits		17,962		16,363
		18,625		16,704
Other non-financial assets				
Receivables		498,866		120,511
Prepaid expenses		1,725		673
Guarantee deposits		-		43
Advance payments		7		23
		500,598		121,250
	₩	519,223	₩	137,954

15. Debts

Debts as of December 31, 2016 and 2015, consist of:

(In millions of Korean won)

	2016		2015	
Borrowings	₩	350,000	₩	-

Details of borrowings as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

		Lender	Annual interest rate (%)	2016		2015	
Borrowings in Korean won	Other borrowings	KTB Investment & Securities Co., Ltd. and Others	1.83	₩	180,000	₩	-
		Samsung Securities Co., Ltd.	1.85		170,000		-
				₩	350,000	₩	-

The maturities of debts as of December 31, 2016, is as follows:

(In millions of Korean won)

	2016						Total
	Up to 3 month	3~6 months	6~12 months	1-3 years	Over 3 years		
Borrowings in Korean won	₩ 180,000	₩ 170,000	₩ -	₩ -	₩ -	₩ -	₩ 350,000

16. Debentures

Details of debentures as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	Issued date	Expiration date	Annual interest rates (%) As of December 31, 2016	2016	2015
Unguaranteed debentures No. 3-1	Aug. 13, 2013	Aug. 13, 2016	3.14	₩ -	₩ 150,000
Unguaranteed debentures No. 3-2	Aug. 13, 2013	Aug. 13, 2018	3.46	130,000	130,000
Unguaranteed debentures No. 3-3	Aug. 13, 2013	Aug. 13, 2020	3.65	70,000	70,000
Unguaranteed debentures No. 4	Mar. 17, 2014	Mar. 17, 2017	3.02	150,000	150,000
Unguaranteed debentures No. 5-1	Mar. 19, 2014	Mar. 19, 2019	3.31	80,000	80,000
Unguaranteed debentures No. 5-2	Mar. 19, 2014	Mar. 19, 2021	3.50	50,000	50,000
Unguaranteed debentures No. 6	Feb. 26, 2015	Feb. 26, 2022	2.38	30,000	30,000
Unguaranteed debentures No. 7	June 23, 2015	June 23, 2018	1.98	150,000	150,000
Unguaranteed debentures No. 8	June 23, 2015	June 23, 2020	2.34	100,000	100,000
Unguaranteed debentures No. 9	June 23, 2015	June 23, 2022	2.52	150,000	150,000
Unguaranteed debentures No. 10	Sept 17, 2015	Sept 17, 2020	2.16	20,000	20,000
Unguaranteed debentures No. 11	Sept 23, 2015	Sept 23, 2020	2.06	30,000	30,000
Unguaranteed debentures No. 12-1	Nov. 27, 2015	Nov. 27, 2018	2.07	80,000	80,000
Unguaranteed debentures No. 12-2	Nov. 27, 2015	Nov. 27, 2020	2.26	110,000	110,000
Unguaranteed debentures No. 12-3	Nov. 27, 2015	Nov. 27, 2022	2.38	50,000	50,000
Unguaranteed debentures No. 13	Dec. 04, 2015	Dec. 04, 2018	2.09	130,000	130,000
Unguaranteed debentures No. 14-1	Dec. 09, 2015	Dec. 09, 2020	2.27	140,000	140,000
Unguaranteed debentures No. 14-2	Dec. 09, 2015	Dec. 09, 2022	2.38	30,000	30,000
Unguaranteed debentures No. 15-1	May 12, 2016	May 12, 2019	1.61	180,000	-
Unguaranteed debentures No. 15-2	May 12, 2016	May 12, 2021	1.72	220,000	-
Unguaranteed debentures No. 15-3	May 12, 2016	May 12, 2026	2.01	200,000	-
Unguaranteed debentures No. 16-1	May 27, 2016	May 27, 2019	1.67	240,000	-
Unguaranteed debentures No. 16-2	May 27, 2016	May 27, 2021	1.78	60,000	-
Unguaranteed debentures No. 16-3	May 27, 2016	May 27, 2023	1.91	150,000	-
Unguaranteed debentures No. 17	June 27, 2016	June 27, 2021	1.51	50,000	-
Unguaranteed debentures No. 18-1	July 25, 2016	July 25, 2019	1.38	170,000	-
Unguaranteed debentures No. 18-2	July 25, 2016	July 25, 2021	1.45	110,000	-
Unguaranteed debentures No. 18-3	July 25, 2016	July 25, 2026	1.69	80,000	-
Unguaranteed debentures No. 19-1	Aug. 25, 2016	Aug. 24, 2018	1.35	200,000	-
Unguaranteed debentures No. 19-2	Aug. 25, 2016	Aug. 25, 2021	1.46	100,000	-
Unguaranteed debentures No. 19-3	Aug. 25, 2016	Aug. 25, 2026	1.69	120,000	-
Unguaranteed debentures No. 20-1	Nov. 28, 2016	Nov. 28, 2019	2.13	50,000	-
Unguaranteed debentures No. 20-2	Nov. 28, 2016	Nov. 28, 2021	2.28	50,000	-
				3,480,000	1,650,000
			Less: Bond Discounts	(5,800)	(2,883)
				₩ 3,474,200	₩ 1,647,117

The maturities of debentures as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016					
	Up to 3 month	3~6 months	6~12 months	1-3 years	Over 3 years	Total
Debentures in Korean won	₩ 150,000	₩ -	₩ -	₩ 1,410,000	₩ 1,920,000	₩ 3,480,000

(In millions of Korean won)

	2015					
	Up to 3 month	3~6 months	6~12 months	1-3 years	Over 3 years	Total
Debentures in Korean won	₩ -	₩ -	₩ 150,000	₩ 640,000	₩ 860,000	₩ 1,650,000

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	Issue	Repayment	Ending
Debentures in Korean won	₩ 1,650,000	₩ 1,980,000	₩ (150,000)	₩ 3,480,000

(In millions of Korean won)

	2015			
	Beginning	Issue	Repayment	Ending
Debentures in Korean won	₩ 630,000	₩ 1,020,000	₩ -	₩ 1,650,000

17. Net Defined Benefit Liabilities

Defined benefit plan

The Company operates defined benefit plans which have the following characteristics:

- The Company 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 Company.

The defined benefit obligation recognized in the statements of financial position is calculated by independent actuaries in accordance with actuarial valuation method.

The defined benefit obligation is calculated using the Projected Unit Credit method (the 'PUC'). The data used in the PUC such as interest rates, future salary increase rate, mortality rate and consumer price index are based on observable market data and historical data which are updated annually.

Actuarial assumptions may differ from actual result due to change in the market, economic trend and mortality trend which may impact defined benefit obligation liabilities and future payments. Actuarial gains and losses arising from changes in actuarial assumptions are recognized in the period incurred through other comprehensive income.

Changes in the defined benefit obligation 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	₩ 15,385	₩ (14,794)	₩ 591
Current service cost	2,035	-	2,035
Interest cost(income)	381	(366)	15
Remeasurements:			
Actuarial gains and losses by changes in demographic assumptions	-	-	-
Actuarial gains and losses by changes in financial assumptions	(871)	-	(871)
Actuarial gains and losses by experience adjustments	359	-	359
Return on plan assets (excluding amounts included in interest income)	-	200	200
Contributions	-	(2,586)	(2,586)
Payments from plans (benefit payments)	(1,436)	1,436	-
Payments from the Company	(2)	-	(2)
Transfer in	1,222	(1,156)	66
Transfer out	(1,998)	1,998	-
Ending	₩ 15,075	₩ (15,268)	₩ (193)

(In millions of Korean won)

	2015		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities
Beginning	₩ 13,117	₩ (12,314)	₩ 803
Current service cost	1,835	-	1,835
Interest cost(income)	403	(378)	25
Remeasurements:			
Actuarial gains and losses by changes in demographic assumptions	(616)	-	(616)
Actuarial gains and losses by changes in financial assumptions	(309)	-	(309)
Actuarial gains and losses by experience adjustments	1,751	-	1,751
Return on plan assets (excluding amounts included in interest income)	-	151	151
Contributions	-	(3,089)	(3,089)
Payments from plans (benefit payments)	(1,687)	1,687	-
Payments from the Company	(79)	-	(79)
Transfer in	3,462	(3,343)	119
Transfer out	(2,492)	2,492	-
Ending	₩ 15,385	₩ (14,794)	₩ 591

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	₩	15,075	₩	15,385
Fair value of plan assets		(15,268)		(14,794)
Net defined benefit liabilities	₩	(193)	₩	591

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	₩	2,035	₩	1,835
Net interest expenses of net defined benefit liabilities		15		25
Post-employment benefits	₩	2,050	₩	1,860

Remeasurements of the 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				
Return on plan assets (excluding amounts included in interest income)		₩ (200)		₩ (151)
Actuarial gains and losses		512		(826)
Income tax effects		(75)		236
Remeasurements after income tax		₩ 237		₩ (741)

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
Cash and due from financial institutions	₩ -	₩ 15,268	₩ 15,268

(In millions of Korean won)

	2015		
	Assets quoted in an active market	Assets not quoted in an active market	Total
Cash and due from financial institutions	₩ -	₩ 14,794	₩ 14,794

Key actuarial assumptions used as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016	2015
Discount rate (%)	2.60	2.50
Future salary increase rate (%)	3.75	4.00
Turnover (%)	1.00	1.00

Mortality assumptions are based on the 8th experience-based mortality table(retirement pension) 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:

	Changes in principal assumption	Effect on defined benefit obligation	
		Increase in principal assumption	Decrease in principal assumption
Discount rate (%)	0.5%p.	5.31% decrease	5.70% increase
Salary increase rate (%)	0.5%p.	5.85% increase	5.48% decrease
Turnover (%)	0.5%p.	0.45% decrease	0.47% 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 changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the statement of financial position.

Expected maturity analysis of undiscounted pension benefits (including expected future benefits) as of December 31, 2016, are as follows:

(In millions of Korean won)

	Up to 1 year	1~2 years	2~5 years	5~10 years	Over 10 years	Total
Pension benefits	₩ 146	₩ 375	₩ 2,064	₩ 9,135	₩ 40,627	₩ 52,347

The weighted average duration of the defined benefit obligation is 11.3 years.

Expected contribution to plan assets for periods after December 31, 2016, is estimated to be approximately ₩2,000 million.

18. 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		
Payables	₩ 2,759	₩ 901
Accrued expenses	7,691	5,600
	10,450	6,501
Other non-financial liabilities		
Payables	10,989	59,744
Accrued expenses	82,474	56,759
Withholding taxes	615	277
	94,078	116,780
	₩ 104,528	₩ 123,281

19. Equity

19.1 Share Capital

Details of share capital and number of issued shares as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
Type of share	Ordinary share		Ordinary share	
Number of authorized shares	1,000,000,000		1,000,000,000	
Par value per share	₩	5,000	₩	5,000
Number of issued shares	418,111,537		386,351,693	
Share capital ¹	₩	2,090,558	₩	1,931,758

¹ In millions of Korean won.

Changes in shares outstanding for the years ended December 31, 2016 and 2015, are as follows:

(In number of shares)

	2016		2015	
Beginning	386,351,693		386,351,693	
Increase	31,759,844		-	
Decrease	(19,753,813)		-	
Ending	398,357,724		386,351,693	

19.2 Capital Surplus

Details of capital surplus as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
Share premium	₩	13,190,275	₩	12,226,597
Other capital surplus	1,465,893		1,287,212	
	₩	14,656,168	₩	13,513,809

19.3 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	₩	(4,742)	₩	(4,979)

Changes in accumulated other comprehensive income for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016			
	Beginning	Changes	Tax effect	Ending
Remeasurements of net defined benefit liabilities	₩ (4,979)	₩ 312	₩ (75)	₩ (4,742)

(In millions of Korean won)

	2015			
	Beginning	Changes	Tax effect	Ending
Remeasurements of net defined benefit liabilities	₩ (4,238)	₩ (977)	₩ 236	₩ (4,979)

19.4 Retained Earnings

Details of retained earnings as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016	2015
Legal reserves	₩ 275,860	₩ 251,517
Voluntary reserves	982,000	982,000
Regulatory reserve for credit losses	604	2,942
Retained earnings before appropriation	1,740,459	1,550,957
	₩ 2,998,923	₩ 2,787,416

With respect to the allocation of net profit earned in a fiscal term, the Company 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 share capital in accordance with Article 53 of the Financial Holding Company Act. The reserve is not available for the payment of cash dividends, but may be transferred to share capital, or used to reduce accumulated deficit.

Appropriation of retained earnings

(Expected date of appropriation for 2016 : March 24, 2017)

(Date of appropriation for 2015 : March 25, 2016)

(In millions of Korean won)

	2016	2015
Unappropriated retained earnings		
Balance at the beginning of the year	₩ 1,150,327	₩ 1,307,532
Profit for the year	590,132	243,425
	1,740,459	1,550,957
Transfers such as discretionary reserves		
Regulatory reserve for credit losses	-	2,338
	-	2,338
Appropriation of retained earnings		
Legal reserve	59,013	24,343
Regulatory reserve for credit losses	1,894	-
Cash dividends	497,969	378,625
(Dividends per common share: ₩1,250(25.0%) in 2016)		
(Dividends per common share: ₩980 (19.6%) in 2015)		
	558,876	402,968
Unappropriated retained earnings to be carried forward	₩ 1,181,583	₩ 1,150,327

Regulatory reserve for credit losses

Measurement and disclosure of regulatory reserve for credit losses are required in accordance with Articles 26 through 28 of the Supervisory Regulations on Financial Holding Companies.

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	₩	604	₩	2,942
Estimated amounts subject to provision(reversal)		1,894		(2,338)
Ending	₩	2,498	₩	604

The 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, except per share amounts)

	2016		2015	
Provision(reversal) of regulatory reserve for credit losses	₩	1,894	₩	(2,338)
Adjusted profit(loss) after provision of regulatory reserve for credit losses ¹		588,238		245,763
Adjusted basic earnings(loss) per share after provision of regulatory reserve for credit losses ¹		1,533		636
Adjusted diluted earnings(loss) per share after provision of regulatory reserve for credit losses ¹		1,525		633

¹ Adjusted profit after provision(reversal) of regulatory reserve for credit losses is not in 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 for the period.

19.5 Treasury Shares

Changes in treasury shares outstanding for the year ended December 31, 2016, are as follows:

(In millions of Korean won and in number of shares)

	2016			
	Beginning	Acquisition	Disposal	Ending
Number of treasury shares ¹	-	19,753,813	-	19,753,813
Carrying amount ¹	₩ -	₩ 719,090	₩ -	₩ 719,090

¹ The Company has entered into a trust agreement with Samsung Securities Co., Ltd. to acquire treasury shares amounting to ₩800,000 million in order to enhance shareholder value.

20. Dividends

The dividends paid to the shareholders of the Parent Company in 2016 and 2015 were ₩378,625 million (₩980 per share) and ₩301,354 million (₩780 per share), respectively. The dividend to the shareholders in respect of the year ended December 31, 2016, of ₩1,250 per share, amounting to total dividends of ₩497,969 million, is to be proposed at the annual general meeting on March 24, 2017. The Company's separate financial statements as of December 31, 2016, do not reflect this dividend payable.

21. Net Interest Expense

Interest income(expense) and net interest expense 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	₩	3,163	₩	1,836
Loans		1,165		45
Other		269		304
		4,597		2,185
Interest expense				
Debts		915		71
Debentures		59,606		27,858
		60,521		27,929
Net interest expense	₩	(55,924)	₩	(25,744)

22. Net Fee and Commission Expense

Fee and commission income(expense) and net 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				
Fees in Korean won	₩	203	₩	-
Fee and commission expense				
Fees paid in Korean won		7,306		8,094
Fees paid in foreign currency		111		134
		7,417		8,228
Net fee and commission expense	₩	(7,214)	₩	(8,228)

23. Net Gains or Losses on Financial Instruments at Fair Value through Profit or Loss

Net gains or losses on financial instruments at fair value through profit or loss consists of gains or losses related to financial instrument that includes interest income, dividend income and 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 related to financial instruments at fair value through profit or loss				
Financial assets designated at fair value through profit or loss	₩	8,092	₩	2,540
Losses related to financial instruments at fair value through profit or loss				
Financial assets designated at fair value through profit or loss		(2,820)		(882)
Net gains(losses) on financial instruments at fair value through profit or loss	₩	5,272	₩	1,658

24. Net Other Operating Income

Other operating income or other operating expense for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
Other operating income				
Dividend income from subsidiaries	₩	686,919	₩	315,527
Dividend income from associate		7,989		-
		694,908		315,527
Other operating expense		-		-
Net other operating income	₩	694,908	₩	315,527

25. 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 other short-term employee benefits - Salaries	₩	20,548	₩	20,870
Salaries and other short-term employee benefits - Others		3,580		4,016
Termination benefits		-		163
Post employment benefits - defined benefit plans		2,050		1,860
Post employment benefits - defined contribution plans		17		6
Share-based payments		3,724		1,799
		29,919		28,714
Depreciation and amortization		801		846
Other general and administrative expenses				
Travel		403		343
Communications		455		394
Tax and dues		292		233
Publication		197		175
Rental expense		1,566		1,519
Vehicle		144		146
Service fees		6,136		1,959
Advertising		748		653
Training		579		305
Others		5,494		4,629
		16,014		10,356
	₩	46,734	₩	39,916

Share-based Payments

Share-based payment plan, where the number of granted shares is determined by the long-term achievement, for executives and employees of the Company and its subsidiaries as of December 31, 2016, is as follows:

(In number of shares)

	Grant date	Number of granted shares ¹	Vesting conditions
KB Financial Group Inc.			
Series 4	July 13, 2010	12,429	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,3}
Series 8	Jan. 01, 2012	13,471	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,4}
Series 9	July 17, 2013	13,209	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,4}
Series 12	Nov. 21, 2014	32,449	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,5}
Series 14	July 17, 2015	11,363	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,6}
Series 15	Jan. 01, 2016	71,088	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,6}
Series 16	Mar. 18, 2016	12,162	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,6}
Deferred grant in 2013	-	4,009	Satisfied
Deferred grant in 2014	-	10,572	Satisfied
Deferred grant in 2015	-	27,096	Satisfied
Deferred grant in 2016	-	13,304	Satisfied
		221,152	
Kookmin Bank			
Series 60	Jan. 01, 2015	277,205	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,7}
Series 61	Apr. 14, 2015	8,390	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,7}
Series 62	Jan. 12, 2015	16,505	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,7}
Series 64	July 24, 2015	21,153	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,7}
Series 65	Aug. 26, 2015	13,828	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,7}
Series 66	Nov. 21, 2014	28,392	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,5}
Series 67	Jan. 01, 2016	164,063	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,8}
Series 68	July 05, 2016	9,621	Services fulfillment, Achievement of targets on the basis of market and non-market performance ^{2,8}
Deferred grant in 2013	-	22,335	Satisfied
Deferred grant in 2014	-	70,766	Satisfied
Deferred grant in 2015	-	88,848	Satisfied
		721,106	

(In number of shares)

	Grant date	Number of granted shares ¹	Vesting conditions
Other subsidiaries and associate			
Stock granted in 2010	-	2,487	Services fulfillment, Achievement of targets on the basis of market and non-market performance ⁹
Stock granted in 2011	-	3,469	Services fulfillment, Achievement of targets on the basis of market and non-market performance ⁹
Stock granted in 2012	-	10,224	Services fulfillment, Achievement of targets on the basis of market and non-market performance ⁹
Stock granted in 2013	-	31,692	Services fulfillment, Achievement of targets on the basis of market and non-market performance ⁹
Stock granted in 2014	-	82,192	Services fulfillment, Achievement of targets on the basis of market and non-market performance ⁹
Stock granted in 2015	-	197,609	Services fulfillment, Achievement of targets on the basis of market and non-market performance ⁹
Stock granted in 2016	-	183,905	Services fulfillment, Achievement of targets on the basis of market and non-market performance ⁹
		511,578	
		1,453,836	

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 (Deferred grants are residual shares as of December 31, 2016).

² During the year, executives and employees were given the option of deferring payment of the granted shares (after the date of retirement), payment ratio, and payment period. Accordingly, a certain percentage of the granted amount is deferred for up to five years after the date of retirement when the deferred grant has been confirmed.

³ 37.5%, 37.5% and 25% of the number of granted shares to be compensated are determined upon the accomplishment of relative TSR, EPS and qualitative indicators, respectively. 30%, 30% and 40% of the number of certain granted shares to be compensated are determined upon the accomplishment of Performance Results, financial results of the Group and relative TSR, respectively. 40%, 40% and 20% of the number of certain granted shares to be compensated are determined upon the accomplishment of EPS, relative TSR and qualitative indicators, respectively.

⁴ 30%, 30% and 40% of the number of granted shares to be compensated are determined upon the accomplishment of Performance Results, financial results of the Group and relative TSR, respectively. 50% of the number of certain granted shares to be compensated is determined upon the accomplishment of Performance Results, while 50% is determined upon the accomplishment of relative TSR.

⁵ 35%, 35% and 30% of the number of granted shares to be compensated are determined upon the accomplishment of relative TSR, EPS and Asset Quality, respectively.

⁶ 40%, 30% and 30% of the number of granted shares to be compensated are determined upon the accomplishment of the Performance Results, financial results of the Group and relative TSR, respectively. 50% of the number of certain granted shares to be compensated is determined upon the accomplishment of Performance Results, while 50% is determined upon the accomplishment of relative TSR.

⁷ 30%, 40% and 30% of the number of granted shares to be compensated are determined upon the accomplishment of relative TSR, Performance Results and financial results of Kookmin Bank, respectively. 50% of the number of certain granted shares to be compensated is determined upon the accomplishment of relative TSR, while 50% is determined upon the accomplishment of Performance Results.

⁸ 30%, 40% and 30% of the number of granted shares to be compensated are determined upon the accomplishment of relative TSR, Performance Results and Evaluation of the Bank president's performance, respectively. 50% of the number of certain granted shares to be compensated is determined upon the accomplishment of relative TSR, while 50% is determined upon the accomplishment of Performance Results.

⁹ 30%, 30% and 40% of the number of granted shares to be compensated are determined upon the accomplishment of Performance Results, subsidiaries' performance and relative TSR, respectively. 60% of the number of certain granted shares to be compensated is determined upon the accomplishment of subsidiaries' performance, while 40% is determined upon the accomplishment of relative TSR. 40%, 30% and 30% of the number of certain granted shares to be compensated are determined upon accomplishment of Performance Results, subsidiaries' performance and relative TSR, respectively. 50% of the number of certain granted shares to be compensated is determined upon the accomplishment of subsidiaries' performance, while 50% is determined upon the accomplishment of relative TSR. 70% of the number of certain granted shares to be compensated is determined upon the accomplishment of subsidiaries' performance, while 30% is determined upon the accomplishment of relative TSR.

The stock grant award program is an incentive plan that sets, on grant date, the maximum amount of shares that can be awarded. Actual stock granted at the end of the vesting period is determined in accordance with achievement of pre-specified targets over the vesting period.

Details of stock grants linked to short-term performance as of December 31, 2016, are as follows:

	Grant date	Estimated number of vested shares ¹	Vesting conditions
KB Financial Group Inc.			
Stock granted in 2010	Jan. 01, 2010	322	Satisfied
Stock granted in 2011	Jan. 01, 2011	1,728	Satisfied
Stock granted in 2012	Jan. 01, 2012	2,642	Satisfied
Stock granted in 2013	Jan. 01, 2013	6,486	Satisfied
Stock granted in 2014	Jan. 01, 2014	16,231	Satisfied
Stock granted in 2015	Jan. 01, 2015	19,943	Satisfied
Stock granted in 2016	Jan. 01, 2016	21,083	Proportional to service period
Kookmin Bank			
Stock granted in 2013	Jan. 01, 2013	33,999	Satisfied
Stock granted in 2014	Jan. 01, 2014	107,427	Satisfied
Stock granted in 2015	Jan. 01, 2015	140,999	Satisfied
Stock granted in 2016	Jan. 01, 2016	133,598	Proportional to service period
Other subsidiaries and associate			
Stock granted in 2013	-	3,276	Satisfied
Stock granted in 2014	-	49,780	Satisfied
Stock granted in 2015	-	166,218	Satisfied
Stock granted in 2016	-	153,112	Proportional to service period

¹ During the year, executives and employees were given the option of deferring payment of the granted shares (after the date of retirement), payment ratio, and payment period. Accordingly, a certain percentage of the granted amount is deferred for up to five years after the date of retirement when the deferred grant has been confirmed.

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:

	Expected exercise period (Years)	Risk free rate (%)	Fair value (Market performance condition)	Fair value (Non-market performance condition)
Linked to long term performance				
(KB Financial Group Inc.)				
Series 4	-	1.57	-	34,180~40,662
Series 8	-	1.57	-	34,180~42,824
Series 9	0.00~1.00	1.57	38,111	34,180~42,824
Series 12	0.89~4.00	1.57	48,889	42,003~42,380
Series 14	1.00~6.00	1.57	41,663	41,471~42,380
Series 15	1.00~6.00	1.57	41,552	41,471~42,380
Series 16	1.21~3.00	1.57	42,824	42,295~42,824
Deferred grant in 2013	-	1.57	-	42,824~42,824
Deferred grant in 2014	0.00~1.00	1.57	-	42,680~42,824
Deferred grant in 2015	0.00~6.00	1.57	-	41,471~42,824
Deferred grant in 2016	0.00~7.00	1.57	-	41,367~42,868

	Expected exercise period (Years)	Risk free rate (%)	Fair value (Market performance condition)	Fair value (Non-market performance condition)
(Kookmin Bank)				
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
(Other subsidiaries and associate)				
Share granted in 2010	0.00~2.00	1.57	-	38,961~42,824
Share granted in 2011	0.00~2.00	1.57	-	40,662~42,824
Share granted in 2012	0.00~2.00	1.57	39,538~39,538	38,111~42,824
Share granted in 2013	0.00~2.00	1.57	34,947~34,947	34,180~42,824
Share granted in 2014	0.00~6.00	1.57	34,612~42,868	34,612~42,868
Share granted in 2015	0.00~7.00	1.57	34,180~42,868	34,180~42,868
Share granted in 2016	0.00~6.00	1.57~1.60	38,680~42,011	41,194~42,416
Linked to short-term performance				
(KB Financial Group Inc.)				
Share granted in 2010	-	-	-	40,662~40,662
Share granted in 2011	-	-	-	38,111~40,662
Share granted in 2012	-	-	-	34,180~40,662
Share granted in 2013	-	-	-	34,180~42,824
Share granted in 2014	0.00~1.00	1.57	-	34,180~42,824
Share granted in 2015	0.00~7.00	1.57	-	41,367~42,824
Share granted in 2016	1.00~7.00	1.57	-	41,367~42,680
(Kookmin Bank)				
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
(Other subsidiaries and associate)				
Share granted in 2013	-	-	-	42,824~42,824
Share granted in 2014	0.00~1.00	1.57	-	42,680~42,824
Share granted in 2015	0.00~6.00	1.57	-	41,471~42,824
Share granted in 2016	1.00~6.00	1.57	-	41,471~42,680

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 of December 31, 2016, was used for the underlying asset price. Additionally, the average three-year historical dividend rate was used as the expected dividend rate.

Share-based payment arrangement for subsidiaries and associate was transferred to the Company in 2010, and the related compensation cost paid to the executives and employees of subsidiaries and associate is reimbursed by these companies. The accrued expenses representing share-based payments as of December 31, 2016 and 2015, are ₩79,742 million and ₩53,678 million, respectively, and the receivables to be reimbursed by the subsidiaries and associate for the compensation costs are ₩70,697 million and ₩44,299 million, respectively. The compensation costs from share-based payments that amounts to ₩3,724 million and ₩1,799 million were recognized as an expense for the nine-month periods ended December 31, 2016 and 2015, respectively.

26. Non-operating Income (Expense)

Details of non-operating income and expenses for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
Non-operating income				
Reversal of impairment losses on intangible assets	₩	98	₩	-
Others		531		1,070
		629		1,070
Non-operating expenses				
Impairment losses on intangible assets		-		75
Donation		961		1,057
Others		8		-
		969		1,132
Non-operating income (expenses)	₩	(340)	₩	(62)

27. Income Tax Benefit

Details of income tax benefit for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
Tax payable				
Current tax expense	₩	-	₩	-
Change in deferred tax assets and liabilities				
Origination and reversal of temporary differences		89		426
Tax expense recognized directly in equity				
Remeasurements of net defined benefit liabilities		75		(236)
Income tax benefit	₩	164	₩	190

The analysis of profit before tax and income tax benefit for the years ended December 31, 2016 and 2015, follows:

(In millions of Korean won)

	2016		2015	
	Tax rate (%)	Amount	Tax rate (%)	Total
Profit before tax		₩ 589,968		₩ 243,235
Tax at the applicable tax rate ¹	24.12	142,310	24.01	58,401
Non-taxable income	(26.23)	(154,775)	(29.00)	(70,542)
Non-deductible expense	0.09	555	0.22	532
Consolidated tax effect	2.05	12,074	4.85	11,799
Average effective tax rate and tax benefit	(0.03)	₩ 164	(0.08)	₩ 190

¹Applicable 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%.

The details of current tax assets (income tax refund receivable) and current tax liabilities (income tax payable), as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
Income tax refund receivable prior to offsetting	₩	-	₩	-
Tax payable prior to offsetting		-		-
Adjustment on consolidated tax payable		419,607		17,178
Current tax payable	₩	419,607	₩	17,178

28. Earnings per Share

Calculations of basic earnings per share on the profit attributable to ordinary shares are as follows:

Weighted average number of ordinary shares outstanding:

(In number of shares)

	2016
Beginning	386,351,693
Issue of ordinary shares for purpose of share exchange	6,421,389
Sub-total(A)	392,773,082
Acquisition of treasury shares (B)	9,138,821
Weighted average number of ordinary shares outstanding (A - B)	383,634,261

(In number of shares)

	2015
Beginning (A)	386,351,693
Acquisition of Treasury shares (B)	-
Weighted average number of ordinary shares outstanding (A - B)	386,351,693

Basic earnings per share

(In Korean won and in number of shares)

	2016	
Profit attributable to ordinary shares ¹ (C)	₩	590,131,305,308
Weighted average number of ordinary shares outstanding (D)		383,634,261
Basic earnings per share (E = C / D)	₩	1,538

(In Korean won and in number of shares)

	2015	
Profit attributable to ordinary shares ¹ (C)	₩	243,425,139,280
Weighted average number of ordinary shares outstanding (D)		386,351,693
Basic earnings per share (E = C / D)	₩	630

¹ Profit attributable to ordinary shares is the same as profit for the period in the statements of comprehensive income.

Diluted earnings per share

Diluted earnings per share is calculated using the weighted average number of ordinary shares outstanding which is adjusted by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares include stock grants.

A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's outstanding shares for the period) based on the monetary value of the subscription rights attached to the stock grants. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of stock grants.

Adjusted profit to calculate diluted earnings per share:

(In Korean won)

	2016		2015	
Profit attributable to ordinary shares	₩	590,131,305,308	₩	243,425,139,280
Adjustment		-		-
Adjusted profit for diluted earnings per share	₩	590,131,305,308	₩	243,425,139,280

Adjusted weighted average number of ordinary shares outstanding to calculate diluted earnings per share:

(In number of shares)

	2016		2015	
Weighted average number of ordinary shares outstanding		383,634,261		386,351,693
Adjustment				
Stock grants		2,013,044		1,741,558
Adjusted weighted average number of ordinary shares outstanding for diluted earnings per share		385,647,305		388,093,251

Diluted earnings per share:

(In Korean won and in number of shares)

	2016		2015	
Adjusted profit for diluted earnings per share	₩	590,131,305,308	₩	243,425,139,280
Adjusted weighted average number of ordinary shares outstanding for diluted earnings per share		385,647,305		388,093,251
Diluted earnings per share	₩	1,530	₩	627

29. 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	
Due from financial institutions	₩	115,065	₩	324,947
Restricted cash from financial institutions		(3)		(3)
	₩	115,062	₩	324,944

Significant non-cash transactions for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		2015	
Changes in equity related to share exchange of Hyundai Securities Co., Ltd.	₩	1,301,159	₩	-
Changes in receivables and payables from consolidated tax		351,957		(162,380)
Changes in receivables and payables relating to stock grants		26,399		4,700
Changes in other payables related with acquisition of treasury shares and others		2,282		550

Cash inflows and outflows due to interest and dividends for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	Activity	2016		2015	
Prepaid income tax expense	Operating	₩	1,151	₩	290
Interest received	Operating		4,477		1,662
Interest paid	Operating		56,865		26,110
Dividends received	Operating		702,381		617,994
Dividends paid	Financing		378,625		301,354

30. Contingent Liabilities and Commitments

Commitments made with financial institutions as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

		2016		2015	
		Amount of commitment	Amounts borrowed	Amount of commitment	Amounts borrowed
General loans	KEB Hana Bank	₩ 50,000	₩ -	₩ 50,000	₩ -
Discounting of bills	KEB Hana Bank	-	-	100,000	-
		₩ 50,000	₩ -	₩ 150,000	₩ -

31. Related Party Transactions

Significant related party transactions for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

			2016	2015
Subsidiaries	Kookmin Bank	Interest income	₩ 2,453	₩ 2,429
		Fee and commission income	203	-
		Net other operating income	380,521	230,496
	KB Securities Co., Ltd.	General and administrative expenses	4,379	1,718
		Fee and commission expenses	-	71
		General and administrative expenses	443	254
	KB Kookmin Card Co., Ltd.	Net other operating income	200,008	-
		General and administrative expenses	239	85
		Net non-operating income	3	2
	KB Life Insurance Co., Ltd.	General and administrative expenses	61	62
	KB Asset Management Co., Ltd.	Net other operating income	50,000	80,000
		General and administrative expenses	13	25
	KB Capital Co., Ltd.	Net gains on financial instruments at fair value through profit or loss	8,092	2,540
		Net losses on financial instruments at fair value through profit or loss	2,820	882
		Net other operating income	5,590	5,031
		General and administrative expenses	75	-
	KB Savings Bank Co., Ltd.	General and administrative expenses	50	-
	KB Real Estate Trust. Co., Ltd.	Net other operating income	50,000	-
		General and administrative expenses	18	-
	KB Investment Co., Ltd.	Interest income	-	45
Net other operating income		800	-	
KB Data Systems Co., Ltd.	General and administrative expenses	1,105	1,092	
Associate	KB Insurance Co., Ltd.	Net other operating income	7,989	-
		General and administrative expenses	826	205

Significant receivables and payables, and related allowance 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
Subsidiaries	Kookmin Bank	Cash and due from financial institutions	₩ 57,967	₩ 324,947
		Other assets	426,521	54,619
		Other liabilities	3,313	41,442
	KB Securities Co., Ltd.	Other assets	8,273	4,908
		Other liabilities	-	3,500
	KB Kookmin Card Co., Ltd.	Other assets	57,943	55,418
		Other liabilities	387	304
	KB Life Insurance Co., Ltd.	Other assets	3,683	1,313
		Other liabilities	7,465	14,462
	KB Asset Management Co., Ltd.	Other assets	2,262	11,394
	KB Capital Co., Ltd.	Financial assets at fair value through profit or loss	246,656	99,118
		Other assets	2,011	437
		Other liabilities	-	-
	KB Savings Bank Co., Ltd.	Other assets	667	3,072
	KB Real Estate Trust Co., Ltd.	Other assets	7,236	4,532
	KB Investment Co., Ltd.	Other assets	1,000	706
	KB Credit Information Co., Ltd.	Other assets	601	296
		Other liabilities	8	15
	KB Data Systems Co., Ltd.	Other assets	939	302
Other liabilities		87	94	
Associate	KB Insurance Co., Ltd.	Other assets	6,347	281

According to Korean IFRS 1024, the Company includes subsidiaries and key management (including family members) in the scope of related parties. Additionally, the Company discloses balances (receivables and payables) and other amounts arising from the related party transactions in the notes to the separate financial statements. Refer to Notes 9 and 10 for details on subsidiaries and associates, respectively.

Key management includes the directors of the Company, their close family members, and the companies where the directors and/or their close family members have control or joint control.

Unused commitments by a related party as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

			2016	2015
Subsidiary	KB Kookmin Card Co., Ltd.	Unused commitments of credit card	₩ 1,613	₩ 1,696

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	Termination benefits	Share-based payments	Total
Registered director (executive)	₩ 256	₩ 23	₩ -	₩ (328)	₩ (49)
Registered director (non-executive)	493	-	-	-	493
Non-registered director	2,628	52	-	4,052	6,732
	₩ 3,377	₩ 75	₩ -	₩ 3,724	₩ 7,176

(In millions of Korean won)

	2015				
	Short-term employee benefits	Post-employment benefits	Termination benefits	Share-based payments	Total
Registered director (executive)	₩ 625	₩ 1	₩ -	₩ 293	₩ 919
Registered director (non-executive)	544	-	-	-	544
Non-registered director	2,230	37	163	1,506	3,936
	₩ 3,399	₩ 38	₩ 163	₩ 1,799	₩ 5,399

32. Approval of Issuance of the Financial Statements

The issuance of the Company's separate financial statements as of and for the year ended December 31, 2016, was approved by the Board of Directors on February 9, 2017.

Report of Independent Auditor's Review of Internal Accounting Control System

To the President of
KB Financial Group Inc.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of KB Financial Group Inc. (the "Company") as of December 31, 2016. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2016, the Company's IACS has been designed and is operating effectively as of December 31, 2016, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association."

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

A company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS"). Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with the IACS standards established by IACSOC.

Our review is based on the Company's IACS as of December 31, 2016, and we did not review management's assessment of its IACS subsequent to December 31, 2016. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers

March 14, 2017

Report on the Operations of Internal Accounting Control System

To the Board of Directors and Audit Committee of
KB Financial Group Inc.

I, as the Internal Accounting Control Officer (“IACO”) of KB Financial Group Inc. (“the Company”), assessed the status of the design and operations of the Company’s internal accounting control system (“IACS”) for the year ended December 31, 2016.

The Company’s management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS standard for the assessment of design and operations of the IACS.

Based on the assessment on the operations of the IACS, the Company’s IACS has been effectively designed and is operating as of December 31, 2016, in all material respects, in accordance with the IACS standards.

March 2, 2017

Jae Keun Lee, Internal Accounting Control Officer

Jong Kyoo Yoon, Chief Executive Officer

Company Directory

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Forward Looking Statements

This document contains forward-looking statements. Words and phrases such as “will,” “aim,” “will likely result,” “will continue,” “contemplate,” “seek to,” “future,” “objective,” “goal,” “should,” “will pursue,” “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe” and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify with forward-looking statements. All forward-looking statements are management’s present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward looking statements.

The factors that could cause actual results to differ include, but are not limited to, the following:

- KB Financial Group’s ability to successfully implement its strategy;
- future levels of non-performing loans;
- KB Financial Group’s growth and expansion;
- adequacy of allowance for credit and investment losses;
- technological changes;
- investment income;
- availability of funding and liquidity;
- cash flow projections;
- KB Financial Group’s exposure to market risks; and
- adverse market and regulatory conditions.

By their nature, certain disclosures relating to these and other risks are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains, losses or impact on KB Financial Group’s income or results of operations could materially differ from those that have been estimated.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document could include, but are not limited to:

- general economic and political conditions in Korea or other countries that have an impact on KB Financial Group’s business activities or investments; Korea’s monetary and interest rate policies;
- inflation or deflation;
- foreign exchange rates;
- prices and yields of equity and debt securities;
- performance of the financial markets in Korea and internationally;
- changes in domestic and foreign laws, regulations and taxes;
- changes in competition and the pricing environments in Korea; and
- regional or general changes in asset valuations.

KB Financial Group cautions the reader not to place undue reliance on the forward-looking statements, which speak only as of the date of this document. Except as required by law, we are not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent forwardlooking statements attributable to KB Financial Group or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this document.

CONTACT INFORMATION

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www.kbfg.com