BNK FINANCIAL GROUP

BNK FINANCIAL GROUP INC.
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015

ATTACHMENT: INDEPENDENT AUDITORS' REPORT

BNK FINANCIAL GROUP INC.

Deloitte Anjin LLC
9F., One IFC,
10, Gukjegeumyung-ro,
Youngdeungpo-gu, Seoul
07326, Korea

Tel: +82 (2) 6676 1000
Fax: +82 (2) 6674 2114
www.deloitteanjin.co.kr

Independent Auditors' Report

English Translation of Independent Auditors' Report Originally Issued in Korean on March 15, 2017.

To the Shareholders and the Board of Directors of
BNK Financial Group Inc.:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of BNK Financial Group Inc. (the "Company") and its subsidiaries (the "Consolidated Entity"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, respectively, and the consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows, all expressed in Korean won, for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an audit opinion on these financial statements based on our audit. We conducted our audit in accordance with Korean Standards on Auditing ("KSAs"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the BNK Financial Group Inc. and its subsidiaries as of December 31, 2016 and 2015, respectively, and its financial performance and its cash flows for the year then ended in accordance with K-IFRS.

Deloitte Anjin LLC

March 15, 2017

Notice to Readers

This report is effective as of March 15, 2017, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to the auditors' report.

BNK FINANCIAL GROUP INC. AND ITS SUBSIDIARIES

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AS OF AND FOR THE YEARS ENDED
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The accompanying consolidated financial statements, including all footnote disclosures, were prepared by, and are the responsibility of, BNK Financial Group Inc.'s management.

Se-Whan Sung
Chief Executive Officer
BNK Financial Group Inc.

BNK FINANCIAL GROUP INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2016 AND 2015

	Korean won			
	December 31, 2016		December 31, 2015	
ASSETS:	(In millions)			
Cash and due from banks (Notes 4, 6, 7, 43 and 45)	₩	3,414,051	₩	3,091,260
Financial assets at fair value through profit or loss (“FVTPL”) (Notes 4, 6, 8 and 11)		1,668,567		1,011,443
Available-for-sale (“AFS”) financial assets (Notes 4, 6, 9, 11 and 45)		6,139,928		5,247,715
Held-to-maturity (“HTM”) financial assets (Notes 4, 6, 10 and		6,201,445		6,843,909
Loans and receivables (Notes 4, 12, 13, 14 and 45)		74,087,010		72,057,993
Derivative assets (Notes 4, 6 and 16)		157,203		177,928
Investments in associates (Note 17)		32,351		34,951
Tangible assets (Note 18)		801,045		795,929
Intangible assets (Note 19)		324,939		367,602
Investment of property (Note 18)		137,814		132,410
Non-current assets held for sale (Note 42)		26,172		29,296
Deferred income tax assets (Note 36)		1,433		15,886
Other assets (Notes 15, 20 and 45)		490,231		473,226
	₩	93,482,189	₩	90,279,548
LIABILITIES AND SHAREHOLDERS’ EQUITY				
LIABILITIES:				
Deposits (Notes 4, 6, 21 and 45)	₩	67,604,391	₩	64,361,451
Borrowings (Notes 4, 6, 22 and 45)		6,332,708		6,025,842
Debentures (Notes 4, 6, 23 and 45)		8,781,598		8,152,822
Derivative liabilities (Notes 4, 6 and 16)		156,714		170,331
Retirement benefit obligation (Note 24)		7,538		23,012
Provisions (Notes 25 and 39)		108,432		149,009
Current income tax liabilities (Note 36)		81,861		64,067
Deferred income tax liabilities (Note 36)		37,879		75,474
Other liabilities (Notes 4, 6, 26 and 45)		3,283,915		5,066,857
		86,395,036		84,088,865
SHAREHOLDERS’ EQUITY:				
Equity attributable to the owners of controlling equity:				
Capital stock (Note 27)		1,629,676		1,279,676
Hybrid equity securities (Note 27)		259,277		259,277
Other paid-up capital (Note 27)		789,802		672,809
Other components of equity (Notes 27 and 37)		2,191		23,959
Retained earnings (Note 27)		4,101,672		3,650,495
		6,782,618		5,886,216
Non-controlling equity		304,535		304,467
		7,087,153		6,190,683
	₩	93,482,189	₩	90,279,548

See accompanying notes.

BNK FINANCIAL GROUP INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Korean won	
	2016	2015
	(In millions, except per share amounts)	
NET INTEREST INCOME (Note 28):		
Interest revenues	₩ 3,256,535	₩ 3,319,185
Interest expenses	(1,116,142)	(1,285,204)
	2,140,393	2,033,981
NET COMMISSION INCOME (Note 29):		
Commission revenues	307,240	339,804
Commission expenses	(139,178)	(135,321)
	168,062	204,483
NET INCOME OF FINANCIAL ASSETS AT FVTPL (Note 30)	4,230	4,751
NET INCOME OF AFS FINANCIAL (Note 31)	55,069	131,416
PROVISION FOR CREDIT LOSS (Note 32)	(431,384)	(447,318)
GENERAL AND ADMINISTRATIVE EXPENSES (Note 33)	(1,122,152)	(1,103,580)
OTHER OPERATING REVENUES AND EXPENSES, NET (Notes 16 and 34):		
Net income from foreign exchange trading	9,059	16,357
Net income from derivatives	17,536	26,089
Other operating revenues	218,031	163,314
Other operating expenses	(346,563)	(333,317)
	(101,937)	(127,557)
OPERATING INCOME	712,281	696,176
NET NON-OPERATING INCOME (LOSE) (Note 35)		
Profit from investments in associates	649	676
Other revenues	21,019	37,506
Other expenses	(45,545)	(34,297)
	(23,877)	3,885
INCOME BEFORE INCOME TAX	688,404	700,061
INCOME TAX EXPENSE (Note 36)	(170,290)	(169,590)

(Continued)

BNK FINANCIAL GROUP INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Korean won	
	2016	2015
	(In millions, except per share amounts)	
NET INCOME (Notes 5 and 38):		
Owners of the Company	₩ 501,611	₩ 485,512
Non-controlling interests	16,503	44,959
	518,114	530,471
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX (Note 37):		
Items that are not subsequently reclassified to profit or loss:		
Remeasurement elements of defined benefit plan	(1,255)	(12,812)
Items that are subsequently reclassified to profit or loss:		
Gain (loss) on fair value of AFS financial assets	(19,349)	10,751
Gain on valuation of cash flow hedges	-	87
Gain (loss) on overseas operations translation	4,505	1,745
Loss on valuation of hedges of net investments in foreign operations	(5,603)	-
Changes in equity under the equity method	(66)	-
	(20,513)	12,583
TOTAL COMPREHENSIVE LOSS	(21,768)	(229)
Total comprehensive income attributable to:		
Owners of the Company	479,843	486,107
Non-controlling interests	16,503	44,135
	₩ 496,346	₩ 530,242
EARNINGS PER SHARE (Note 38):		
Basic and diluted net earnings per share (in currency units)	₩ 1,522	₩ 1,947

(Concluded)

See accompanying notes.

BNK FINANCIAL GROUP INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Korean won							
Description	Capital stock	Hybrid equity securities	Other paid-up capital	Other components of equity	Retained earnings	Controlling interests	Non-controlling interests	Total
	(In millions)							
Balance at January 1, 2015	₩ 1,171,899	₩ -	₩ 353,679	₩ 23,364	₩ 3,216,741	₩ 4,765,683	₩ 698,261	₩ 5,463,944
Annual dividends	-	-	-	-	(46,876)	(46,876)	-	(46,876)
Issue of shares	107,777	-	213,881	-	-	321,658	-	321,658
Issue of hybrid equity securities	-	259,277	-	-	-	259,277	-	259,277
Dividends for hybrid equity securities	-	-	-	-	(4,882)	(4,882)	(16,435)	(21,317)
Acquisition of treasury shares	-	-	(639)	-	-	(639)	-	(639)
Disposal of treasury shares	-	-	303	-	-	303	-	303
Stock exchange (Kyongnam Bank)	-	-	105,585	-	-	105,585	(426,721)	(321,136)
Effect of business combination	-	-	-	-	-	-	5,227	5,227
Comprehensive income:								
Net income	-		-	-	485,512	485,512	44,959	530,471
Other comprehensive income (loss):								
Evaluation of AFS financial assets	-		-	10,600	-	10,600	151	10,751
Gains on valuation of cash flow hedge	-	-	-	(24)	-	(24)	111	87
Foreign currency translation gains	-	-	-	1,745	-	1,745	-	1,745
Remeasurement elements' defined benefit plans	-	-	-	(11,726)	-	(11,726)	(1,086)	(12,812)
Balance at December 31, 2015	₩ 1,279,676	₩ 259,277	₩ 672,809	₩ 23,959	₩ 3,650,495	₩ 5,886,216	₩ 304,467	₩ 6,190,683
Balance at January 1, 2016	₩ 1,279,676	₩ 259,277	₩ 672,809	₩ 23,959	₩ 3,650,495	₩ 5,886,216	₩ 304,467	₩ 6,190,683
Annual dividends	-	-	-	-	(38,388)	(38,388)	-	(38,388)
Issue of shares	350,000		116,993	-	-	466,993	-	466,993
Dividends for hybrid equity securities	-	-	-	-	(12,046)	(12,046)	(16,435)	(28,481)
Comprehensive income:								
Net income	-	-	-	-	501,611	501,611	16,503	518,114
Other comprehensive income (loss):								
Remeasurement elements' defined benefit plans	-	-	-	(1,255)	-	(1,255)	-	(1,255)
Evaluation of AFS financial assets	-	-	-	(19,349)	-	(19,349)	-	(19,349)
Foreign currency translation gains	-	-	-	4,505	-	4,505	-	4,505
Loss on valuation of hedges of net investments in foreign operations	-	-	-	(5,603)	-	(5,603)	-	(5,603)
Changes in equity under the equity method	-	-	-	(66)	-	(66)	-	(66)
Balance at December 31, 2016	₩ 1,629,676	₩ 259,277	₩ 789,802	₩ 2,191	₩ 4,101,672	₩ 6,782,618	₩ 304,535	₩ 7,087,153

See accompanying notes.

BNK FINANCIAL GROUP INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Korean won	
	2016	2015
	(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	₩ 518,114	₩ 530,471
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Interest income	(3,256,535)	(3,319,185)
Interest expense	1,116,142	1,285,204
Gain on fair value change of financial assets at FVTPL, net	(4,230)	(918)
Gain on AFS financial assets, net	(55,069)	(131,416)
Allowance for credit loss	413,934	434,480
Loss (gain) on foreign currency translation, net	6,764	(5,169)
Gain from valuation of derivatives, net	(3,637)	(8,932)
Depreciation and amortization	139,347	134,629
Provision for severance benefits	52,710	49,463
Other operating profit (loss), net	(62,402)	(38,069)
Equity method	(649)	(676)
Loss on fixed assets, net	17,770	1,010
Income tax expense	170,290	169,590
	(1,465,565)	(1,429,989)
Changes in working capital:		
Net increase (decrease) due from banks	(608,065)	481,391
Net decrease in financial assets at FVTPL	(653,695)	(128,917)
Net increase (decrease) in loans and receivables	(2,417,412)	(5,881,057)
Net increase (decrease) in derivative assets and liabilities	10,748	47,870
Net increase (decrease) in other assets	(14,551)	(99,269)
Net increase in deposits	3,232,672	4,488,944
Net decrease in provisions	(699)	(4,275)
Net decrease (increase) in other liabilities	(1,627,928)	1,153,897
Net decrease in defined benefit obligation	(24,406)	(11,614)
Net increase in plan assets	(45,283)	(91,669)
	(2,148,619)	(44,699)

(Continued)

BNK FINANCIAL GROUP INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2016 AND 2015

	Korean won	
	2016	2015
	(In millions)	
Cash received from (paid to) operating activities:		
Interest revenue received	₩ 3,249,847	₩ 3,268,715
Dividend revenue received	42,717	33,583
Interest expense paid	(1,172,028)	(1,472,043)
Income tax paid	(150,272)	(139,616)
	1,970,264	1,690,639
Net cash provided by (used in) in operating activities	(1,125,806)	746,422
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disposal of AFS financial assets	5,079,415	8,325,383
Acquisition of AFS financial assets	(5,978,920)	(8,522,546)
Disposal of HTM financial assets	1,919,325	2,590,980
Acquisition of HTM financial assets	(1,272,786)	(3,091,578)
Disposal of investments in associates	30,838	-
Acquisition of investments in associates	(27,305)	-
Disposal of tangible assets	615	1,116
Acquisition of tangible assets	(104,104)	(105,067)
Disposal of intangible assets	551	1,394
Acquisition of intangible assets	(20,899)	(17,005)
Net cash flow from business combination	-	(8,657)
Others	1,388	(29,509)
Net cash used in investing activities	(371,882)	(855,489)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in borrowings	189,452	(601,724)
Issue of debentures	2,576,149	2,466,538
Debenture redemption	(1,968,000)	(1,618,926)
Paid-in capital increase	466,993	-
Issue of hybrid equity securities	-	259,277
Dividends paid	(66,754)	(68,194)
Others	-	(876)
Net cash provided by financing activities	1,197,840	436,095
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(299,848)	327,028
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	1,143,887	777,613
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	14,573	39,246
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	₩ 858,612	₩ 1,143,887

(Concluded)

See accompanying notes.

1. GENERAL:

A general description of BNK Financial Group Inc. ("BNK Financial Group" or "Parent" or the "Company"), which is a controlling entity in accordance with Korean International Financial Reporting Standards ("K-IFRS") 1110, *Consolidated Financial Statements,* and its subsidiaries (the "Consolidated Entity" or "Group"), is as follows:

(1) BNK Financial Group

BNK Financial Group was incorporated on March 15, 2011, in accordance with the provisions of the Financial Holding Company Act, whereby holders of the common stock of Busan Bank; BNK Securities Co., Ltd.; BNK Capital Co., Ltd.; and BNK Credit Information Co., Ltd. transferred all of their shares to the Company and in return received shares of the Company's common stock in order to control, manage and provide financial support to subsidiaries or financial industry-related subsidiaries. Meanwhile, BNK Financial Group established BNK Information System Co., Ltd. and BNK Savings Bank Co., Ltd. as its subsidiaries with 100% investment in 2011. The Consolidated Entity obtained control of Kyongnam Bank by acquiring 56.97% of its shares in October 2014 and ultimately acquired 100% of shares of Kyongnam Bank through comprehensive exchange of shares on June 4, 2015. In July 2015, the Consolidated Entity also obtained 51.01% of shares in BNK Asset Management Co., Ltd. and established it as its subsidiary through paid-in capital increase and acquisition of ownership. The headquarters of BNK Financial Group is located at Busan Nam-gu Munhyeongeumyung-ro, 30. On another note, the capital stock paid-up of the Consolidated Entity as at 31 December 2016, having gone through several increases of paid-in capital after establishment, amounts to ₩1,629,676 Million and 325,935,246 shares.

(2) Description of consolidated entities

1) Details of ownership in consolidated entities

Ownerships in consolidated entities as of December 31, 2016 and 2015, are as follows:

Company	Business type	Location	Financial statements as of	Percentage of ownership (%) December 31, 2016	Percentage of ownership (%) December 31, 2015
BNK Financial Group:					
Busan Bank Co., Ltd.	Banking	Korea	December 31	100.00	100.00
Kyongnam Bank Co., Ltd.	Banking	Korea	December 31	100.00	100.00
BNK Securities Co., Ltd.	Investment brokerage and trading	Korea	December 31	100.00	100.00
BNK Capital Co., Ltd.	Specialized credit financial business	Korea	December 31	100.00	100.00
BNK Savings Bank Co., Ltd.	Saving bank services	Korea	December 31	100.00	100.00
BNK Asset Management Co., Ltd.	Financial advisory and collective investment	Korea	December 31	51.01	51.01
BNK Credit Information Co., Ltd.	Credit investigation and collection agency	Korea	December 31	100.00	100.00
BNK System Co., Ltd.	System software developing and supply	Korea	December 31	100.00	100.00
BNK 'Strong' Short-term Government Bond No. 1	Beneficiary certificate	Korea	December 31	87.87	97.25
Busan Bank:					
Non-restricted money trust account (*1)	Trust business	Korea	December 31	-	-
Development trust account (*1)	Trust business	Korea	December 31	-	-
Retirement pension trust (*1)	Trust business	Korea	December 31	-	-
Personal pension trust (*1)	Trust business	Korea	December 31	-	-

Company	Business type	Location	Financial statements as of	Percentage of ownership (%) December 31, 2016	December 31, 2015
Retirement trust (*1)	Trust business	Korea	December 31	-	-
New private pension trust (*1)	Trust business	Korea	December 31	-	-
Pension trust (*1)	Trust business	Korea	December 31	-	-
Installment money in trust (*1)	Trust business	Korea	December 31	-	-
Household money in trust (*1)	Trust business	Korea	December 31	-	-
Kyongnam Bank Co., Ltd.:					
Consus 6th LLC (*2)	Special Purpose Company (SPC)	Korea	December 31	-	-
Non-restricted money trust account (*1)	Trust business	Korea	December 31	-	-
Retirement pension trust (*1)	Trust business	Korea	December 31	-	-
Personal pension trust (*1)	Trust business	Korea	December 31	-	-
Development trust account (*1)	Trust business	Korea	December 31	-	-
Retirement trust (*1)	Trust business	Korea	December 31	-	-
New private pension trust (*1)	Trust business	Korea	December 31	-	-
Pension trust (*1)	Trust business	Korea	December 31	-	-
Installment money in trust (*1)	Trust business	Korea	December 31	-	-
Household money in trust (*1)	Trust business	Korea	December 31	-	-
Company money in trust (*1)	Trust business	Korea	December 31	-	-
Daishin Balance Private Securities Investment Trust 51st	Beneficiary certificate	Korea	December 31	100.00	100.00
Daishin Balance Private Securities Investment Trust 55th	Beneficiary certificate	Korea	December 31	100.00	100.00
HDC Dual Private Securities Investment Trust 1st	Beneficiary certificate	Korea	December 31	100.00	100.00
Hanhwa Private Securities Investment Trust 15th	Beneficiary certificate	Korea	December 31	100.00	100.00
BNK Capital Co., Ltd.:					
BNKC (Cambodia) MFI Plc	Specialized credit financial business	Cambodia	December 31	100.00	100.00
BNK Capital Myanmar Co., Ltd.	Specialized credit financial business	Myanmar	March 31	99.99	99.99
BNK Capital Lao Leasing Co., Ltd	Specialized credit financial business	Laos	December 31	94.99	90.00
BNK Auto First Securitization Specialty Co., Ltd. (*2)	Securitization business	Korea	December 31	1.00	1.00

(*1) These are cash-in-trust in accordance with and under the Trust Business Act, equity ownership of which is less than majority. However, given the comprehensive consideration of the Consolidated Entity's ability to influence the variable profit, exposure of variable profit, as well as the ability to influence investee-related activities, it was determined that these trusts were controlled by the Consolidated Entity.

(*2) These are structured entities for the purpose of asset-backed securitization, equity ownership of which is less than majority. However, given the comprehensive consideration of the ability to influence the variable profit, exposure of variable profit, as well as the ability to influence investee-related activities, it was determined that these entities were controlled by the Consolidated Entity.

2) Changes in consolidated entities

There were no subsidiaries newly included in scope of consolidation for the year ended December 31, 2016. The subsidiaries newly included in scope of consolidation for the year ended December 31, 2015, are as follows:

December 31, 2015

Company	Reason
BNK Asset Management Co., Ltd.	Incorporation of BNK Asset Management Co., Ltd. as subsidiary
CS Partners Co., Ltd. 1st CS Partners Co., Ltd. 2nd BSCORAO Co., Ltd. 1st Stock secured loan Money Market Trust	Founding of a new subsidiary by BNK Securities Co., Ltd.
BNK Capital Lao Leasing Co., Ltd. BNK Auto First Securitization Specialty Co., Ltd.	Founding of a new subsidiary by BNK Capital Co., Ltd.

The subsidiaries excluded in scope of consolidation for the years ended December 31, 2016 and 2015, are as follows:

December 31, 2016

Company	Reason
Stock secured loan Money Market Trust	Liquidation of BNK Securities' SPC
Plus Private Real Estate Investment Trust 6	Liquidation of BNK Savings Bank's ownership
CS Partners Co., Ltd. 1st	Liquidation of BNK Securities' SPC
CS Partners Co., Ltd. 2nd	Liquidation of BNK Securities' SPC
BSCORAO Co., Ltd. 1st	Liquidation of BNK Securities' SPC

December 31, 2015

Company	Reason
Samsung Plus Alpha Private Equity Securities 21st Shinyoung Private Securities Investment Trust KN-1st Shinyoung Private Securities Investment Trust KN-2nd Yuri Balance Private Investment Trust 11th Hanhwa Private Securities Investment Trust 72nd	Liquidation of Kyongnam Bank's Beneficiary certificate
KJM Partners Co., Ltd. the 10th	Liquidation of BNK Securities' SPC

3) Major financial information of subsidiaries for the years ended December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

December 31, 2016

	Assets	Liabilities	Equity	Operating income	Net income	Total comprehensive income
Busan Bank Co., Ltd. and its Subsidiaries	₩51,649,492	₩47,436,007	₩4,213,485	₩ 426,608	₩326,865	₩ 316,994
Kyongnam Bank Co., Ltd. and its Subsidiaries	35,559,533	32,712,012	2,847,521	267,757	208,165	190,973
BNK Securities Co., Ltd. and its Subsidiaries	1,064,121	849,993	214,128	12,518	9,356	8,885
BNK Capital Co., Ltd. and its Subsidiaries	4,692,578	4,130,223	562,355	74,328	57,207	57,070
BNK Savings Bank Co., Ltd.	769,064	653,632	115,432	12,918	(8,050)	(8,050)
BNK Asset Management Co., Ltd.	10,624	457	10,167	204	139	139
BNK Credit Information Co., Ltd.	8,587	599	7,988	907	687	687
BNK System Co., Ltd.	8,722	2,379	6,343	1,000	767	767

December 31, 2015

	Assets	Liabilities	Equity	Operating income	Net income	Total comprehensive income
Busan Bank Co., Ltd. and its Subsidiaries	₩50,262,692	₩46,460,591	₩3,802,101	₩418,815	₩320,341	₩ 318,940
Kyongnam Bank Co., Ltd. and its Subsidiaries	34,641,993	32,184,386	2,457,607	260,527	210,538	171,489
BNK Securities Co., Ltd. and its Subsidiaries	539,944	384,678	155,266	10,209	7,797	7,698
BNK Capital Co., Ltd. and its Subsidiaries	4,287,110	3,781,825	505,285	55,359	43,446	42,127
BNK Savings Bank Co., Ltd. and its Subsidiaries	795,607	672,122	123,485	5,292	4,765	4,765
BNK Asset Management Co., Ltd.	10,430	402	10,028	(707)	(642)	(642)
BNK Credit Information Co., Ltd.	7,711	409	7,302	740	566	566
BNK System Co., Ltd.	10,388	4,813	5,575	969	739	739

4) Busan Bank

Busan Bank (the “Bank”) was incorporated on October 10, 1967, as a regional bank under the Banking Act and is domiciled in the Republic of Korea. The Bank engages in commercial banking under the Banking Act, as well as trust business under the Capital Market and Financial Investment Services Provider Act, and has been appointed as the city’s regional reserve bank for the purpose of overseeing the general and special accounts of Busan City Council from January 2001. Busan Bank is headquartered at Busan Nam-gu Munhyeongeumyung-ro, 30 and has 193 branches and 71 offices in Korea, two overseas branches and three overseas offices.

Busan Bank made its first initial public offering on June 15 1972, when it listed its common shares on the Korean stock exchange (“KRX”). The Bank became a wholly owned subsidiary of BNK Financial Group through comprehensive stock transfer as of March 15, 2011, and the Bank’s listed shares on the KRX were delisted by March 30, 2011. Busan Bank’s common stock capital amounts to₩ 9,744 hundred million as of December 31, 2016, and the controlling company has 100% ownership. As the end of financial year reporting date of the subsidiary is December 31, 2016, the Company used the subsidiary’s financial statements as of December 31, 2016, which were audited by an external auditor, for the purpose of preparing the consolidated financial statements.

5) Kyongnam Bank Co., Ltd.

Kyongnam Bank Co., Ltd. (the "Bank") was incorporated on May 1, 2014, by spinning off from Woori Financial Group Inc. in order to control, manage and provide financial support to subsidiaries. The Company listed its common shares on the KRX on May 22, 2014. Meanwhile, the Company changed the corporate name into "Kyongnam Bank Co., Ltd." on August 1, 2014, after merging the subsidiary company "Kyongnam Bank Co., Ltd." The Company is an approved trust business in accordance with Trust Business Act and is engaged in the commercial banking, foreign exchange and trust business.

Additionally, the Consolidated Entity acquired 44,677,529 shares of stocks issued by the Bank that were originally owned by Korea Deposit Insurance Corporation, on October 10, 2014. Accordingly, the Consolidated Entity obtained control over the Bank by acquiring 56.97% of its voting shares, and the Bank's largest shareholder changed from Korea Deposit Insurance Corporation to the Consolidated Entity.

Meanwhile, as the Consolidated Entity obtained ultimate control over the Bank by acquiring 100% of its voting shares through comprehensive exchange of shares on June 4, 2015, the Bank was delisted on June 23, 2015.

The Bank's headquarters is located at Kyongnam Chanwon-si Masanhoewon-gu 3, 15ro, 642. The Bank has 167 branches and offices in Korea. As of December 31, 2016, the Bank's outstanding common stock amounts to ₩432,105 million.

6) BNK Securities Co., Ltd.

BNK Securities Co., Ltd. was established on June 2, 1997, and commenced operations concurrently, with the opening of the KRX, to be engaged in the futures transaction business under the Futures Business Law. During November 2009, BNK Securities Co., Ltd. received approval for securities business in addition to its futures business from the Financial Supervisory Commission in the Republic of Korea, resulting in its name change from PB Futures Co., Ltd. to BNK Securities Co., Ltd. It is wholly owned by BNK Financial Group, with a capital of ₩93 billion as of December 31, 2016. As the reporting period-end date of the subsidiary is December 31, 2016, the Company used the subsidiary's financial statements as of December 31, 2016, which were audited by an external auditor, in order to prepare the consolidated financial statements.

7) BNK Capital Co., Ltd.

BNK Capital Co., Ltd. was established on July 15, 2010, to operate installment financing, facilities lease and new technology financing under the Regulation on Supervision of Specialized Credit Financial Business Law. BNK Capital Co., Ltd. is wholly owned by BNK Financial Group, with a capital of ₩218 billion as of December 31, 2016. As the reporting period-end date of the subsidiary is December 31, 2016, the Company used the subsidiary's financial statements as of December 31, 2016, which were audited by an external auditor, in order to prepare the consolidated financial statements.

8) BNK Savings Bank Co., Ltd.

BNK Savings Bank Co., Ltd. was established on December 13, 2011, to operate savings bank business. At the end of the reporting period, the capital stock amounted to ₩31 billion and is wholly owned by BNK Financial Group. As the reporting period-end date of the subsidiary is December 31, 2016, the Company used the subsidiary's financial statements as of December 31, 2016, which were audited by an external auditor, in order to prepare the consolidated financial statements.

9) BNK Asset Management Co., Ltd.

BNK Asset Management Co., Ltd. was established on July 15, 2008, with main business objective as management, advisory and advocacy of collective investment, as well as various other related operations. At the end of the reporting period, the capital stock amounted to ₩17.1 billion and is partially owned by BNK Financial Group with 51.01% shares. As the end of financial year reporting date of the subsidiary is December 31 2016, the Company used the subsidiary's financial statements as of December 31 2016, which were audited by an external auditor, for the purpose of preparing consolidated financial statements.

10) BNK Credit Information Co., Ltd.

BNK Credit Information Co., Ltd. was established on June 17, 2003, to be managed in a credit check and debt collection business. At the end of the reporting period, the capital stock amounted to ₩3 billion and is wholly owned by BNK Financial Group. As the reporting period-end date of the subsidiary is December 31, 2016, the Company used the subsidiary's financial statements as of December 31, 2016, which were audited by an external auditor, in order to prepare the consolidated financial statements.

11) BNK System Co., Ltd.

BNK System Co., Ltd. was established on May 20, 2011, to operate in financial information technology ("IT"). At the end of the reporting period, the capital stock amounted to ₩3 billion and is wholly owned by BNK Financial Group. As the reporting period-end date of the subsidiary is December 31, 2016, the Company used the subsidiary's financial statements as of December 31, 2016, which were audited by an external auditor, in order to prepare the consolidated financial statements.

2. BASIS OF CONSOLIDATED FINANCIAL STATEMENT PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES:

(1) Basis of consolidated financial statement preparation

The Consolidated Entity has prepared the consolidated financial statements in accordance with the Korean International Financial Reporting Standards ("K-IFRS").

The principal accounting policies are set out below. Except for the effect of the amendments to K-IFRS and new interpretations set out below, the principal accounting policies used to prepare the consolidated financial statements as of and for the year ended December 31, 2016, are consistent with the accounting policies used to prepare the consolidated financial statements as of and for the year ended December 31, 2015.

The accounts of the consolidated financial statements have been arranged in proportion to liquidity, which is based on common nature of a financial company and the importance of the business affairs of the Group.

The consolidated financial statements have been prepared on the historical cost basis, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given.

1) Amendments to K-IFRS affecting amounts reported in the consolidated financial statements

The following amendments to K-IFRS have been applied in the current year and have affected the amounts reported in the consolidated financial statements.

Amendments to K-IFRS 1110 – *Consolidated Financial Statements* and K-IFRS 1112 *Disclosure of Interests in Other Entities* and K-IFRS 1028 *Investment in Associates*

The amendments clarify that in applying the equity method of accounting to an associate or a joint venture that is an investment entity, an investor may retain the fair value measurements that the associate or joint venture used for its subsidiaries. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Consolidated Entity's consolidated financial statements.

Amendments to K-IFRS 1111 – *Accounting for Acquisitions of Interests in Joint Operations*

The amendments to K-IFRS 1111 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in K-IFRS 1103, *Business Combinations*. A joint operator is also required to disclose the relevant information required by K-IFRS 1103 and other standards for business combinations. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Consolidated Entity's consolidated financial statements.

Amendments to K-IFRS 1001– *Disclosure Initiative*

The amendments to K-IFRS 1001 clarify the concept of applying materiality in practice and restrict an entity reducing the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Consolidated Entity's consolidated financial statements.

Amendments to K-IFRS 1016 – *Property, Plant and Equipment*

The amendments to K-IFRS 1016 prohibit the Group from using a revenue-based depreciation method for items of property, plant and equipment. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Consolidated Entity's consolidated financial statements.

Amendments to K-IFRS 1038 – *Intangible Assets*

The amendments to K-IFRS 1038 do not allow presumption that revenue is an appropriate basis for the amortization of intangible assets, which the presumption can only be limited when the intangible asset is expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Consolidated Entity's consolidated financial statements.

Amendments to K-IFRS 1016 – *Property, plant and equipment* and K-IFRS 1041 *Agriculture: Bearer Plants*

The amendments to K-IFRS 1016, '*Property, Plant and Equipment'* and K-IFRS 1041, '*Agriculture'* define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with K-IFRS 1016, instead of K-IFRS 1041. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Consolidated Entity's consolidated financial statements.

Annual Improvements to K-IFRS 2012-2014 – Cycle

The annual improvements include amendments to a number of K-IFRS. The amendments introduce specific guidance in K-IFRS 1105, Non-current Assets Held for Sale and Discontinued Operations when an entity reclassifies an asset (or a disposal group) from held for sale to held for distribution to owners (or vice versa); such a change is considered as a continuation of the original plan of disposal, and not as a change to a plan of sale. Other amendments in the annual improvements include K-IFRS 1107, Financial Instruments: Disclosures; K-IFRS 1019, Employee Benefits; and K-IFRS 1034, Interim Financial Reporting. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Consolidated Entity's consolidated financial statements.

2) The Consolidated Entity has not applied the following new and revised K-IFRS that have been issued, but are not yet effective:

Amendments to K-IFRS 1109 – Financial Instruments

The amendments to K-IFRS 1109 contain the requirements for the classification and measurement of financial assets and financial liabilities based on a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and based on the contractual terms that give rise on specified dates to cash flows, impairment methodology based on the expected credit losses, broadened types of instruments that qualify as hedging instruments, the types of risk components of non-financial items that are eligible for hedge accounting and the change in the hedge effectiveness test. The amendments are effective for annual periods beginning on or after January 1, 2018.

Adoption of K-IFRS 1109 will generally be applied retrospectively, except for the following:
- Exemption allowing the Consolidated Entity not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes; and
- Prospective application of new hedge accounting except for those specified in K-IFRS 1109 for retrospective application such as accounting for the time value of options.

The amendments to K-IFRS 1109 contain the requirements for the classification and measurement of financial assets and financial liabilities based on a business model, whose objective is achieved both by collecting contractual cash flows and selling financial assets and based on the contractual terms that give rise on specified dates to cash flows, impairment methodology based on the expected credit losses and broadened types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting and the change of the hedge effectiveness test.

To ensure smooth implementation of K-IFRS 1109, the Consolidated Entity needs to assess the financial impact of adopting K-IFRS 1109 to formulate the accounting policy and to design, implement and stabilize the accounting system and related controls. The actual impact of adopting such standard on the Consolidated Entity's financial statements in 2018 may vary since it depends on the financial instruments held by the Consolidated Entity and economic conditions at that time, as well as accounting elections and judgments made by the Consolidated Entity in connection with the adaptation of K-IFRS 1109.

With the implementation of K-IFRS 1109, the Consolidated Entity has not modified its system of internal controls over reporting for financial instruments or accounting system. In addition, the Consolidated Entity has not evaluated the financial impact of K-IFRS 1109 adoption on its financial statements. For each key transitional provision, the impacts of K-IFRS adoption on the consolidated financial statements are as follows:

a. Classification and Measurement of Financial Assets

Classification under K-IFRS 1109 for financial assets is driven by the Consolidated Entity's business model for managing financial assets and their contractual cash flow characteristics. This standard requires the classification of financial assets into three categories: amortized cost, FVTPL and fair value through other comprehensive income (FVTOCI), as described in the table below. Derivatives embedded in contracts where the host is a financial asset are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

	Contractual cash flow characteristics	
Business Model	Solely payments of principal and interest ("SPPI")	Others
Hold to collect contractual cash flows	Amortized cost (*1)	FVTPL (*2)
Hold to collect contractual cash flows and sell financial assets	FVTOCI (*1)	
Hold to sell financial assets and others	FVTPL	

(*1) To eliminate or reduce the accounting mismatch, the Consolidated Entity may irrevocably designate a financial asset as measured at FVTPL using the fair value option at initial recognition.

(*2) Equity instruments that are not held for trading may be irrevocably designated as FVTOCI using the fair value option.

As new classification requirements for financial assets measured at amortized cost or FVTOCI under K-IFRS 1109 are more stringent than requirements under K-IFRS 1109, the adoption of the new standard may result in increase in financial assets designated as at FVTPL and higher volatility in profit or loss of the Consolidated Entity.

As of December 31, 2016, the Consolidated Entity holds loans and receivables, AFS financial assets and HTM financial assets.

According to K-IFRS 1109, a debt instrument can be measured at amortized cost only if it is held within a business model whose objective is to collect the contractual cash flows and has contractual cash flows that are SPPI on the principal amount outstanding. As of December 31, 2016, loans and receivables, AFS financial assets and HTM financial assets are measured at amortized cost.

According to K-IFRS 1109, a debt instrument can be measured at FVTOCI if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and the asset's contractual cash flows represent SPPI. As of December 31, 2016, the Consolidated Entity holds debt instruments that are classified as available for sale.

According to K-IFRS 1109, if an equity investment is not held for trading, the Consolidated Entity can make an irrevocable election at initial recognition to measure it at FVTOCI. If this election is made, items recognized in OCI will not be recycled through profit or loss in subsequent periods.

According to K-IFRS 1109, a debt instrument is measured at FVTPL if its contractual cash flows include items other than payments of principal and interests, or it is held within a business model whose objective is to sell financial assets and not designated as at FVTOCI.

b. Classification and measurement of financial liabilities

Under K-IFRS 1109, for the financial liabilities designated as at FVTPL using the fair value option, the element of gains or losses attributable to changes in the own credit risk should normally be recognized in other comprehensive income ("OCI"), with the remainder recognized in profit or loss. These amounts recognized in OCI are not recycled to profit or loss even when the liability is derecognized. However, if presentation of the fair value change in respect of the liability's credit risk in OCI creates or enlarges an accounting mismatch in profit or loss, gains and losses are entirely presented in profit or loss.

Adoption of K-IFRS 1109 might result in decrease in profit or loss since the amount of fair value changes that is attributable to changes in the credit risk of the liability is presented in OCI.

c. Impairment: financial assets and contract assets

Under the current K-IFRS 1039 impairment model (the "incurred loss model"), impairment loss can only be recognized when there is objective evidence that an impairment loss has been incurred. However, K-IFRS 1109 impairment model (the expected credit loss impairment model) is applied to debt instruments measured at amortized cost or at FVOCI, lease receivables, contract assets, loan commitments and financial guarantee contracts.

As described below, financial instruments in scope of impairment model are assigned to one of three stages, depending on whether there has been a significant increase in credit risk since initial recognition. In addition, it is required to measure the loss allowance for financial instruments at an amount equal to either 12-month expected credit losses or lifetime expected credit losses. Therefore, the new impairment requirements are designed to result in earlier recognition of credit loss compared to the incurred loss model of K-IFRS 1039.

Stages (*1)		Loss allowance
Stage 1	No significant increase in credit risk since initial recognition (*2)	12-Month Expected Credit Losses: The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on financial instruments that are possible within 12 months after the reporting date.
Stage 2	Significant increase in credit risk since initial recognition	Lifetime Expected Credit Losses: The expected credit losses that result from all possible default events over the expected life of a financial instrument.
Stage 3	Objective evidence of credit risk management	

(*1) In cases of trade receivable or contract assets in scope of K-IFRS 1115, '*Revenue from Contracts with Customers,*' if there is no significant financing component in contracts with customers, loss allowance for such assets shall be measured at lifetime expected credit losses. If a significant financing component exists, entities can elect to measure the loss allowance for trade receivable or contract assets at lifetime expected credit losses. In cases of lease receivable, entities can elect to measure the loss allowance at lifetime expected credit losses as well.
(*2) If financial instruments have low credit risk at the end of the reporting period, it is also considered that credit risk of such instruments has not increased significantly since initial recognition.

Under K-IFRS 1109, the Consolidated Entity shall only recognize the cumulative change in lifetime-expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets.

As of December 31, 2016, the Consolidated Entity holds debt instruments measured at amortized cost (loans and receivables and HTM financial assets). The Consolidated Entity also holds debt instruments classified as AFS financial assets and measured at FVTOCI and recognizes impairment loss on such instruments. Impairment loss on loans and receivables is recognized in loss allowance.

d. Hedge Accounting

K-IFRS 1109 maintains the mechanics of hedge accounting from those in K-IFRS 1039. However, K-IFRS 1109 replaces existing rule-based requirements under K-IFRS 1039 that are complex and difficult to apply with principle-based requirement focusing more on the Group's risk management purposes and procedures. Under K-IFRS 1109, more hedging instruments and hedged items are permitted and 80%-125% effectiveness requirement is removed.

By complying with the hedging rules in K-IFRS 1109, the Consolidated Entity may apply hedge accounting for transactions that currently do not meet the hedging criteria under K-IFRS 1039 thereby reducing volatility in profit or loss.

As of December 31, 2016, the Consolidated Entity applies hedge accounting to derivatives that are designated and qualified as fair value hedges and net investment hedges in foreign operations. As the Consolidated Entity applies hedge accounting, changes in fair value of derivatives that are designated and qualified as fair value hedges are recognized in profit or loss immediately, and gain (loss) on valuation of hedges of net investments in foreign operations is recognized in OCI.

When initially applying K-IFRS No. 1109, the Consolidated Entity may choose as its accounting policy to continue to apply hedge accounting requirements under K-IFRS No. 1039 instead of the requirements in K-IFRS No.1109.

Amendments to K-IFRS 1115 – *Revenue from Contracts with Customers*

The core principle under K-IFRS 1115 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments introduce a five-step approach to revenue recognition and measurement: 1) Identify the contract with a customer, 2) Identify the performance obligations in the contract, 3) Determine the transaction price, 4) Allocate the transaction price to the performance obligations in the contract and 5) Recognize revenue when (or as) the entity satisfies a performance obligation. This standard will supersede K-IFRS 1011 - Construction Contracts, K-IFRS 1018-Revenue, K-IFRS 2113 - Customer Loyalty Programmes, K-IFRS 2115-Agreements for the Construction of Real Estate, K-IFRS 2118 - Transfers of Assets from Customers, and K-IFRS 2031-Revenue-Barter Transactions Involving Advertising Services. The amendments are effective for annual periods beginning on or after January 1, 2018.

Amendments to K-IFRS 1102 – Share-based *Payment*

The amendments include: 1) when measuring the fair value of share-based payment, the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment should be consistent with the measurement of equity-settled share-based payment, 2) share-based payment transaction in which the Group settles the share-based payment arrangement net by withholding a specified portion of the equity instruments per statutory tax withholding requirements would be classified as equity-settled in its entirety, if otherwise would be classified as equity-settled without the net settlement feature, and 3) when a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions, the original liability recognized is derecognized and the equity-settled share-based payment is recognized at the modification date fair value. Any difference between the carrying amount of the liability at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately. The amendments are effective for annual periods beginning on or after January 1, 2018.

Amendments to K-IFRS 1007 – *Statement of Cash Flows*

The amendments require that changes in liabilities arising from financial activities are disclosed. The amendments are effective for annual periods beginning on or after January 1, 2017.

Amendments to K-IFRS 1012 – *Income Taxes*

The amendments clarify that unrealized losses on fixed-rate debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the holder expects to recover the carrying amount of the debt instrument by sale or by use and that the estimate of probable future taxable profit may include the recovery of some of assets for more than their carrying amount. When the Group assesses whether there will be sufficient taxable profit, the Group should compare the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017.

The application of these amendments has no significant impact on the disclosure in the Consolidated Entity's consolidated financial statements.

(2) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company (and its subsidiaries). Control is achieved where the Group 1) has the power over the investee; 2) is exposed, or has rights, to variable returns from its involvement with the investee; and 3) has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Group holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Consolidated Entity's accounting policies.

All intragroup transactions and related assets and liabilities, income and expenses are eliminated in full on consolidation.

Changes in the Consolidated Entity's ownership interests in subsidiaries that do not result in the Consolidated Entity losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Consolidated Entity's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Group.

When the Consolidated Entity loses control of a subsidiary, a gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e., reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under K-IFRS 1039 – *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(3) Business Combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.
At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with K-IFRS 1012 – *Income Taxes* and K-IFRS 1019 – *Employee Benefits*, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with K-IFRS 1102 – *Share-Based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with K-IFRS 1105 – *Non-Current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree and c) the fair value of the acquirer's previously held equity interest in the acquiree (if any), over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree and c) the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another K-IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement-period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement-period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement-period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with K-IFRS 1039 – *Financial Instruments: Recognition and Measurement* or K-IFRS 1037 – *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

(4) Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.
A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement that exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with K-IFRS 1105 – *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statements of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or a joint venture recognized at the date of acquisition is recognized as goodwill that is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Upon disposal of an associate or a joint venture that results in the Group losing significant influence over that associate or joint venture, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with K-IFRS 1039 – *Financial Instruments: Recognition and Measurement*. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis we would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as reclassification adjustment) when it loses significant influence over that associate or joint venture.

When the Group reduces its ownership interest in an associate or a joint venture, but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. In addition, the Group applies K-IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations* to a portion of investment in an associate or a joint venture that meets the criteria to be classified as held for sale.

The requirements of K-IFRS 1039 - *Financial Instruments: Recognition and Measurement* are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036 – *Impairment of Assets* by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, and any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036, Impairment of Assets to the extent that the recoverable amount of the investment subsequently increases.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that is not related to the Group.

(5) Goodwill

Goodwill resulting from an acquisition of a business is carried at cost as established at the date of acquisition of the business, less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) (or groups of CGUs) that is expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently, when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statements of comprehensive income. An impairment loss recognized for goodwill is not reversed in the subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(6) Foreign currencies

The individual financial statements of each entity in the Consolidated Entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in currency units (KRW), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise, except for:

- exchange differences on foreign currency borrowings related to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore, forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Consolidated Entity's foreign operations are expressed in currency units using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for that period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests, as appropriate).

(7) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and highly liquid investment assets that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

(8) Financial Assets

A financial asset is recognized when the Consolidated Entity becomes a party to the contract and, at initial recognition, is measured at its fair value, plus or minus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Otherwise, the transaction cost that is directly attributable to the acquisition of the financial asset at FVTPL is recognized in profit or loss immediately when it arises.

A regular purchase and sale of financial assets is recognized and derecognized at trade date or at settlement date. It is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Financial assets are classified into the following specified categories: financial assets at FVTPL, HTM, AFS and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1) Effective interest rate method

The effective interest rate method is a method of calculating the amortized cost of a debt instrument and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest rate method for debt instruments other than those financial assets classified as at FVTPL.

2) Financial assets at FVTPL

Financial assets at FVTPL include contingent consideration that may be paid by an acquirer as part of business combination to which K-IFRS 1103 applies, financial assets held for trading and financial assets designated as at FVTPL upon initial recognition. A financial asset is acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Financial assets at FVTPL are measured at fair value and the change in value is recognized in profit or loss for assets classified as financial assets measured at FVTPL.

Financial assets are classified as at FVTPL when the financial asset is either held for trading or is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Consolidated Entity manages together and has a recent actual pattern of short-term profit taking.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Consolidated Entity 's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 – *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, and any gains or losses arising on remeasurement are recognized in profit or loss.

3) HTM investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Consolidated Entity has the positive intent and ability to hold to maturity are classified as HTM investments. HTM investments are measured at amortized cost using the effective interest rate method, less any impairment, with revenue recognized on an effective interest rate method basis.

4) AFS financial assets

Non-derivative financial assets that are not classified as at HTM, held for trading, designated as at FVTPL or loans and receivables are classified as at financial assets AFS.

Financial assets AFS are subsequently measured at fair value. Gains and losses arising from changes in fair value are recognized and accumulated in other comprehensive income, with the exception of interest calculated using the effective interest method and foreign exchange gains and losses on monetary AFS financial assets, which are recognized in profit or loss. Where the AFS financial assets are disposed of or are determined to be impaired, the cumulative gain or loss previously accumulated in the other comprehensive income is recognized in profit or loss.

Dividends from AFS equity instruments are recognized in profit or loss when the Consolidated Entity's right to receive payment of the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

The AFS investments in equity instruments that do not have a quoted price in an active market for an identical instrument and their fair values are not reliably measurable, and derivative assets that are linked to those investments and must be settled by delivery of such an equity instrument are measured at cost, net of identified impairment losses.

5) Loans and receivables

Non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market, other than held for trading or designated on initial recognition as financial assets at FVTPL or as AFS financial assets are classified as 'loans and receivables.' Loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment. Interest income is recognized by applying the effective interest rate method, except for short-term receivables when the recognition of interest would be immaterial.

The Consolidated Entity classifies the purchased amount as loans when purchasing the financial instrument under repurchase agreements.

6) Impairment of financial assets

Financial assets other than those at FVTPL are assessed for indicators of impairment at the end of each reporting period.

Financial assets are considered to be impaired when there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. However, as a result of future events, the expected impairment is recognized only when incurred.

Objective evidence that a financial asset is impaired includes the following loss events:

- significant financial difficulty of the issuer or counterparty;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons related to the borrower's financial difficulty, granted to the borrower a concession that the lender would not otherwise consider;
- it is becoming probable that the borrower will enter into bankruptcy or financial reorganization;
- the disappearance of an active market for the financial asset due to financial difficulties; and
- observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets after initial recognition, although the decrease in the estimated future cash flows of individual financial assets included in the group is not identifiable.

For listed and unlisted equity investments classified as AFS financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered to be the objective evidence of impairment.

If there is an objective evidence of impairment, impairment loss should be recognized by each category as described below:

① Loans and receivables
For loans and receivables measured at amortized cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial asset's original effective interest rate. The Consolidated Entity first assesses whether objective evidence of impairment exists individually for the financial assets that are individually significant.

For financial assets that are not individually significant, the Consolidated Entity assesses whether the objective evidence of impairment exists individually or collectively. If the Consolidated Entity 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.

i) Allowance for losses on credits by individual assessment
Allowance for losses on credits is recognized as the difference between the asset's carrying amount and the present value of future cash flows expected to be collected by considering borrower's management performance, financial position, overdue period and mortgage amount.

ii) Allowance for losses on credits by collective assessment
Allowance for losses on credits is recognized by adjusting PD and loss given, default from Basel II for the purpose of accounting and applying that to the carrying amount. Such approach considers various elements, including borrower type, credit rating, size of portfolio, loss emergence period and collection period, and applies consistent assumptions so as to model the measurement of inbuilt loss and determine variables based on historical loss experience and current conditions.

Impairment loss is deducted from allowance for losses on credits when it is considered unrecoverable. If it is subsequently recovered, allowance for losses on credits increases and the changes are recognized in profit or loss.

② AFS financial assets
When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in that period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

With respect to AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

③ HTM financial assets
For HTM financial assets measured at amortized cost, impairment loss is measured by 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 and directly deducted from the carrying amount.

In case the impairment loss decreases in a subsequent period and such decrease is objectively related to the events occurring after recognition of impairment, the impairment loss previously recognized is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

7) Derecognition of financial assets

The Consolidated Entity derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Consolidated Entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Consolidated Entity recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Consolidated Entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the Consolidated Entity continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

If the Consolidated Entity derecognizes the entire financial asset, the difference between total received amount, plus the sum of cumulative income recognized in other comprehensive income and the book value of the asset is recognized in profit or loss.

(9) Financial liabilities and equity instruments

1) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of financial liability and an equity instrument.

2) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company’s own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company’s own equity instruments.

3) Compound instruments

The component parts of compound instruments (convertible bonds) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company’s own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share premium. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible notes using the effective interest method.

4) Financial liabilities

Financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments. Financial liabilities are initially measured at fair value. Transaction cost that is directly attributable to the issue of financial liabilities is deducted from the fair value of the financial liabilities on initial recognition. Transaction costs directly attributable to acquisition of financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

5) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is contingent consideration that may be paid by an acquirer as part of a business combination to which K-IFRS 1103 applies, or held for trading, or is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking
- it is a derivative that is not designated and effective as a hedging instrument

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 – *Financial Instruments*: *Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the consolidated statements of comprehensive income.

6) Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective-yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments, including all fees and points paid or received (that form an integral part of the effective interest rate) and transaction costs and other premiums or discounts through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

7) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer 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 terms of a debt instruments.

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

• the amount of the obligation under the contract, as determined in accordance with K-IFRS 1037 – *Provisions, Contingent Liabilities and Contingent Assets*
• the amount initially recognized, less cumulative amortization recognized in accordance with the K-IFRS 1018 – *Revenue*

8) Derecognition of financial liabilities

The Group derecognizes financial liabilities when the Group's obligations are discharged, canceled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(10) Derivative instruments

The Consolidated Entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross-currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument; in such case, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Consolidated Entity designates certain derivatives either as hedges of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges) or hedges of net investments in foreign operations (net investment hedges).

A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

1) Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and it is not expected to be realized or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

2) Hedge accounting

The Consolidated Entity designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions.

Furthermore, at the inception of the hedge and on an ongoing basis, the Consolidated Entity documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

3) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line item of the consolidated statements of comprehensive income relating to the hedged item.

Hedge accounting is discontinued when the Consolidated Entity revokes the hedging relationship; when the hedging instrument expires or is sold, terminated or exercised; or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

4) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss related to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the consolidated statements of comprehensive income as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Consolidated Entity revokes the hedging relationship; when the hedging instrument expires or is sold, terminated or exercised; or it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss.

When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

(11) Tangible assets

Tangible assets are stated at cost, less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of tangible assets directly attributable to their purchase or construction 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. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in the carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow into the Consolidated Entity and the cost of the asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

The Consolidated Entity does not depreciate land. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

Tangible assets	Estimated useful life (Years)	Depreciation method
Construction	50	Straight line
Leasehold improvements	5	Straight line
Equipment	5	Straight line
Fixtures	5	Straight line
Vehicles	5	Straight line

If each part of an item of tangible assets has a cost that is significant in relation to the total cost of the item, it is depreciated separately.

The Consolidated Entity reviews the depreciation method, the estimated useful lives and residual values of tangible assets at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized

(12) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

While land is not depreciated, all other investment property is depreciated based on the respective assets' estimated useful lives ranging from 50 years using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An investment property is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of investment properties, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income in the period in which the asset is derecognized.

(13) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

a. The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

b. The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(14) Intangible assets

a. Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost, less accumulated impairment losses.

b. Internally generated intangible assets — research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

Expenditure arising from development (or from the development phase of an internal project) is recognized as an intangible asset if, only if, the development project is designed to produce new or substantially improved products, and the Group can demonstrate the technical and economical feasibility and measure reliably the resources attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

c. Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

d. Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from its use. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

(15) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value, less costs to sell and value in use. If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount and the reduced amount is recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(16) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified a held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with K-IFRS 1039 – *Financial Instruments: Recognition and Measurement,* unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(17) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). The discount rate used is a pretax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage is recognized in profit or loss as borrowing cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

1) Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

2) Restructurings

A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

3) Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of the subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized in accordance with K-IFRS 1037 – *Provisions, Contingent Liabilities and Contingent Assets*, and the amount initially recognized less cumulative amortization recognized in accordance with K-IFRS 1018 – *Revenue*.

(18) Retirement benefit costs and termination benefits

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statements of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income) and remeasurement.

The Group presents the service cost and net interest expense (income) components in profit or loss, and the remeasurement component in other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statements of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan. When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

If the contributions are not linked to services (e.g., contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability (asset).

If contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method required by K-IFRS 1019 paragraph 70 for the gross benefits.

(19) Revenue and expense recognition

a. Interest income and expense

Using the effective interest rate method, the Consolidated Entity recognizes interest income and expense in the consolidated statements of comprehensive income. The amortized cost of financial assets or liabilities is calculated based on the effective interest rate method and the interest income and expenses are allocated over the relevant period.

The effective interest rate reconciles the expected future cash in and out through the expected life of financial instruments or, if appropriate, through shorter period and net carrying amount of financial assets or liabilities. When calculating the effective interest rate, the Consolidated Entity estimates future cash flows considering all contractual terms of the financial instruments, except for the loss on future credit risk. Also, the effective interest rate calculation includes redemption costs, points (if it is a part of the effective interest rate) that are paid or earned between contracting parties, transaction costs and other premiums and discounts.

b. Commission revenue

① Fees that are a part of the financial instruments' effective yield
Fees that are a part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate. Such fees 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, as well as origination fees received on issuing financial liabilities measured at amortized cost. These fees are deferred and recognized as an adjustment to the effective interest rate. However, in case the financial instrument is classified as a financial asset at FVTPL, the relevant fee is recognized as revenue when the instrument is initially recognized.

② Commission from rendering services
Commission revenue from rendering services, such as asset management, trustee business and financial guarantee, is recognized as the services are provided. When it is not probable that specific loan agreement is contracted and agreed commission is not applied to K-IFRS 1039, those services will be recognized on a straight-line basis as the work is performed.

③ Commission from significant act performed
The recognition of revenue is postponed until the significant act is executed. On performing significant transactions, the earned commissions are recognized as gains and losses at the time the transactions are completed.

The commissions and sales commissions that are paid for the participation in negotiations for the third party are recognized as gains and losses at the time the transactions of the third party are completed.

The Consolidated Entity arranges a syndicated loan, but does not participate in the syndicate or has the same effective gains and losses with other participants; fees on syndicated loan are recognized as gains and losses when the transactions of syndicated loan are completed.

④ Unearned revenue from point programs (customer loyalty program)
The Consolidated Entity operates customer loyalty program to provide customers with incentives to buy their goods or services. If a customer buys goods or services, the entity grants the customer award credits (often described as ‘points’). The customer can redeem the award credits for awards, such as free or discounted goods or services. The award credits are accounted separately as identifiable component of the sales transaction(s) in which they are granted (the ‘initial sales’). The fair value of the consideration received or receivable with respect to the initial sale shall be allocated between the award credits and the other components of the sale.

If the Consolidated Entity supplies the awards itself, it shall recognize the consideration allocated to award credits as revenue when award credits are redeemed and it fulfills its obligation to supply awards. The amount of revenue recognized shall be based on the number of award credits that have been redeemed in exchange for awards, related to the total number expected to be redeemed.

If the third party supplies the awards, the Consolidated Entity shall assess whether it is collecting the consideration allocated to the award credits on its own account (as the principal in the transaction) or on behalf of the third party (as agent for the third party). The amount of revenue recognized shall be net amount retained on its own account.

c. Dividend income

Dividend income is recognized when the shareholders are entitled to receive dividends. According to the classification of equity securities, dividend income is indicated in the consolidated statements of comprehensive income.

(20) Income tax expense

Income tax expense consists of current and deferred taxes.

In accordance with the Korean Corporate Tax Act, the Group and its 100%-owned domestic subsidiaries have filed a consolidated tax return.

Accordingly, the Group recognizes total corporate income tax due as a current tax liability and the amounts due from subsidiaries as loans and receivables. The Group applies the consolidated taxation system, the way that the Group reports and pays income tax based on the total amount of income regarding the Group and all domestic subsidiaries on which the Group completely controls over as a single taxation unit. Deferred taxes are measured based on the future tax benefits expected to be realized in consideration of the expected combined profits or losses of eligible companies in accordance with the consolidated corporate tax system. The Group recognizes total amount of tax payables in accordance with the consolidated corporate tax system as a parent Group and recognizes receivables, which will be received from subsidiaries.

a. Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit or loss before tax expenses as reported in the consolidated statements of comprehensive income because of items of income or expense that are taxable or deductible in other periods. The Consolidated Entity’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred income tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred income tax assets and liabilities are not recognized if the taxable or deductible temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit (taxable deficit) nor the accounting profit.

Deferred income tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Consolidated Entity is able to control the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The Consolidated Entity shall offset deferred tax assets and deferred tax liabilities if, and only if, the Consolidated Entity has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities that intend either to settle current 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 tax liabilities or assets are expected to be settled or recovered.

If a deferred tax liability or asset arises from investment property that is measured using the fair value model in K-IFRS 1040, *Investment Property*, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale. Accordingly, unless the presumption is rebutted, the measurement of the deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

c. Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity; in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(21) Accounting for trust accounts

In accordance with the Financial Investment Services and Capital Market Act, the Consolidated Entity establishes savings accounts under trust agreements (“trust account”) separately from its bank accounts and administers the funds for the benefit of one or more beneficiaries. Funds transferred between a bank account and trust account are recognized as due to/from trust accounts. The fees and commissions received from trust accounts are recognized when the Consolidated Entity provides services to the trust accounts.

With respect to certain trust account products, the Consolidated Entity guarantees the repayment of the principal of the trust accounts and, in certain cases, a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such deficiency is satisfied by using special reserves maintained in the trust accounts, offsetting trust fee payable to the Consolidated Entity accounts and receiving compensating contributions from the Consolidated Entity accounts of the Consolidated Entity. If the Consolidated Entity pays compensating contributions to the trusts with the guaranteed return to cover such deficiencies, these contributions are reflected as operating expense of the Consolidated Entity accounts and as other income of the trust accounts.

(22) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Consolidated Entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of K-IFRS 1102, *Share-Based Payment*, leasing transactions that are within the scope of K-IFRS 1017, *Leases*, and measurements that have some similarities to fair value, but are not fair value, such as net realizable value in K-IFRS 1002, *Inventories*, or value in use in K-IFRS 1036, *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorized into Levels 1, 2 and 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(23) Operating segments

The Consolidated Entity makes a decision about resources to be allocated within segments and divides segments based on internal reports for management to evaluate performances regularly. Each segment consists of the Consolidated Entity’s own strategic business units. The segments provide their products and services and they are separately operated by their business units due to the difference between technical and marketing strategies.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY:

In the application of the Consolidated Entity’s accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(1) Significant accounting judgment in the process of applying accounting policies

The items below are important judgments that are different from other items related to estimations (refer to Note 3. (2)). The judgment is determined in the process of applying accounting policies and is the most important matter to recognize the amounts in the consolidated financial statements.

1) Impairment of AFS financial assets

As described in Note 2. '(8) Financial assets' of significant accounting policies, the decrease in the fair value of AFS financial assets significantly or continuously below cost represents an objective evidence of the impairment loss. Accordingly, the Consolidated Entity is basically regarded as a "significant fall" if the fair value decreases more than 30% of the acquisition cost and "continuous fall" if the fair value of AFS financial assets continuously decreases for more than six months.

2) Fair value of financial assets

As described in Note 2. '(22) Fair value' of significant accounting policies, the Consolidated Entity exercises various methods from general valuation models to advance valuation models, if valuation models to determine the fair value of financial assets are used. At this time, various input variables and assumptions are applied.

(2) Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of the estimation uncertainty at the end of the reporting period that have a significant risk causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year.

1) Fair value of financial instruments

In order to determine fair values of financial assets and liabilities without observable market values, valuation methods are necessary. For the valuation of the financial instruments for which transactions do not occur frequently and prices that are not transparent, an extensive judgment is required with regard to liquidity, concentrativeness, uncertainty of market factors, assumptions related to price determination and other risks because fair values lack objectivity.

2) Allowance for credit losses (allowance for losses on loans, allowance for losses on acceptances and guarantees and allowance for losses on unused credit limits)

The Consolidated Entity recognizes allowance for losses on individual loans and receivables by assessing the occurrence of loss events, or it assesses impairment for the group of loans and receivables with similar credit risk characteristics. The Consolidated Entity maintains allowance for credit losses on off-balance-sheet credit instruments, including commitments to extend credit, guarantees, acceptances, standby and commercial letters of credit and other financial instruments, to absorb estimated probable losses related to these unused credit facilities. The provision for the allowances can vary due to the borrower's expected cash flows for the individually assessed loans and receivables and the changes in assumptions and parameters for the collectively assessed loans and receivables, the acceptances and guarantees and the unused credit limits.

3) Measurement of defined benefit obligation

The Group's defined benefit obligation is determined based on the actuarial valuation carried out at the end of each annual reporting period. Actuarial assumptions are the Group's best estimates of the variables in determining the cost of providing post-retirement benefits, such as discount rates, rates of expected future salary increases and mortality rates. Significant estimation uncertainty is likely to persist in making such assumptions due to the long-term nature of post-retirement benefit plan.

4) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value-in-use calculation requires the directors to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value.

5) Uncertainty on the Estimation of Earnings Accumulation Tax (EAT)

Under EAT regime, the Group may incur increased tax burden depending on its level of investment, payroll increase or cash dividends for the preceding three years from 2015. There is uncertainty in the estimation of the tax impact to the Group, which is reviewed by the management per the current level of investment, payroll increase or cash dividends.

4. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS:

(1) General

1) General risk management policy

The Consolidated Entity is exposed to various financial risks, such as credit risk, liquidity risk, market risk and operational risk, associated with financial instruments.

This outline indicates the level of exposure to such risks and objectives, policies, risk assessment, management procedures and capital management of the Consolidated Entity. Additional quantitative information is disclosed in the consolidated financial statements.

The Consolidated Entity's risk management system has focused on increasing the transparency of risk and supporting the long-term strategy and management decision making to deal with rapid changes in the financial environment. The Consolidated Entity realizes the important risks, such as credit risk, market risk, operational risk, credit concentration risk, interest rate risk, liquidity risk, strategy risk and reputation risk. It measures and manages the quantitative economic capital or value at risk ("VaR") by using the statistical method.

2) Organization of risk management

a. Risk management committee

The risk management committee establishes a risk management strategy in accordance with the strategic direction chosen by the Board of Directors, determines the possible level of risk and manages the level of risk that the Consolidated Entity faced and the condition of risk management activities as a top decision-making organization.

b. Risk management council

Risk management council is responsible for coordinating with the risk management units of subsidiaries to ensure that they implement the policies, guidelines and limits established by the risk management committee. The Consolidated Entity's risk management council is composed of the Group's chief risk management officer and the chief risk management officers of subsidiaries.

c. Risk management division

The Consolidated Entity's risk management division performs detailed risk policies, procedures and business processes of risk management, and is responsible for managing and monitoring the limit of the Consolidated Entity's economic capital.

(2) Credit Risk

1) General

The credit risk is the risk of financial loss to the Consolidated Entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Consolidated Entity's loan, card assets and securities. The Consolidated Entity considers all the elements of individual borrower's credit risk exposure, including default and breach.

2) Risk management framework

The Consolidated Entity assesses its required expected loss and economic capital by managing all credit exposures on or off balance sheet.

The Consolidated Entity establishes and manages total exposure limits for borrowers and industries in order to optimize the use of credit availability and avoid excessive risk concentration.

The credit management division and management planning division manage the credit risk by integrating and establishing credit policy, monitoring loan portfolios and restructuring the loans independently from the marketing division. The risk management division conducts the measurement of the economic capital, total exposure management, credit evaluation and approval and reviews the credit evaluation model.

3) Maximum exposure to credit risk

The Consolidated Entity's maximum exposure to credit risk that does not consider value of collateral as of December 31, 2016 and 2015, is summarized as follows (Unit: Korean won in millions):

Classification	December 31, 2016	December 31, 2015
Cash and due from banks	₩ 2,555,439	₩ 1,947,373
Financial assets at FVTPL		
Financial assets held for trading	1,586,545	923,969
Designated as at FVTPL	2,721	9,956
AFS financial assets	5,037,508	4,361,816
HTM financial assets	6,201,445	6,843,909
Loans	71,374,056	67,685,373
Receivables	2,712,954	4,372,621
Derivative assets	157,203	177,928
Guarantees and acceptances	1,356,423	1,624,113
Loan commitments	11,354,898	8,889,696
	₩ 102,3339,192	₩ 96,836,754

4) Credit risk by impairment of loans and receivables as of December 31, 2016 and 2015, is summarized as follows (Unit: Korean won in millions):

	December 31, 2016						
	Loans in local currency						
Classification	Household	Corporates	Public sector	Subtotal	Other loans	Receivables	Total
Assets neither past due nor impaired	₩ 20,543,936	₩ 44,072,328	₩ 1,808,705	₩ 66,424,969	₩ 4,515,888	₩ 2,727,211	₩ 73,668,068
Assets past due but not impaired	82,454	113,926	1,677	198,057	41,548	-	239,605
Impaired assets	89,335	588,737	902	678,974	59,320	3	738,297
	20,715,725	44,774,991	1,811,284	67,302,000	4,616,756	2,727,214	74,645,970
Loan origination fees and costs	70,030	42,644	1,501	114,175	11,694	-	125,869
Allowance for loan losses	(73,075)	(509,930)	(8,222)	(591,227)	(79,342)	(4,895)	(675,464)
Present-value discounts (leasehold deposits)	-	-	-	-	-	(9,365)	(9,365)
	₩ 20,712,680	₩ 44,307,705	₩ 1,804,563	₩ 66,824,948	₩ 4,549,108	₩ 2,712,954	₩ 74,087,010

	December 31, 2015						
	Loans in local currency						
Classification	Household	Corporates	Public sector	Subtotal	Other loans	Receivables	Total
Assets neither past due nor impaired	₩ 17,829,261	₩ 42,242,261	₩ 1,950,188	₩ 62,021,710	₩ 5,144,218	₩ 4,389,414	₩ 71,555,342
Assets past due but not impaired	81,475	101,464	832	183,771	43,983	-	227,754
Impaired assets	77,924	747,602	888	826,414	53,778	1,594	881,786
	17,988,660	43,091,327	1,951,908	63,031,895	5,241,979	4,391,008	72,664,882
Loan origination fees and costs	64,297	34,937	1,566	100,800	15,905	-	116,705
Allowance for loan losses	(58,880)	(551,230)	(7,224)	(617,334)	(87,871)	(8,355)	(713,560)
Present-value discounts (leasehold deposits)	-	-	-	-	-	(10,033)	(10,033)
	₩ 17,994,077	₩ 42,575,034	₩ 1,946,250	₩ 62,515,361	₩ 5,170,013	₩ 4,372,620	₩ 72,057,994

5) Analysis of creditworthiness of financial assets

Creditworthiness is classified based on internal creditworthiness grade as follows:

	Household	Corporates
Grade 1	1	AAA
Grade 2	2	AA+, AA
Grade 3	3	AA-
Grade 4	4	A
Grade 5	5	BBB
Grade 6	6	BB+, BB, BB-
Grade 7	7-10	B, C, D

a. Creditworthiness of loans and receivables

Creditworthiness of loans and receivables neither past due nor impaired as of December 31, 2016 and 2015, is summarized as follows (Unit: Korean won in millions):

Credit rating	December 31, 2016						
	Loans in local currency						
	Household	Corporates	Public sector	Subtotal	Other loans	Receivables	Total
1	₩ 1,613,243	₩ 365,722	₩ 539,304	₩ 2,518,269	₩ 390,760	₩ 33,636	₩ 2,942,665
2	2,662,688	938,480	370,494	3,971,662	467,126	-	4,438,788
3	3,670,522	2,088,707	9,987	5,769,216	409,096	-	6,178,312
4	5,304,793	4,505,257	131,280	9,941,330	531,084	19	10,472,433
5	3,582,402	17,484,116	288,959	21,355,477	1,119,240	1,182	22,475,899
6	2,273,173	16,953,084	456,141	19,682,398	977,141	11	20,659,550
7	1,427,028	1,007,029	5,852	2,439,909	288,464	-	2,728,373
Unrated	10,087	729,933	6,688	746,708	332,977	2,692,363	3,772,048
	₩ 20,543,936	₩44,072,328	₩ 1,808,705	₩66,424,969	₩4,515,888	₩2,727,211	₩73,668,068

Credit rating	December 31, 2015						
	Loans in local currency						
	Household	Corporates	Public sector	Subtotal	Other loans	Receivables	Total
1	₩ 1,255,451	₩ 189,608	₩ 508,476	₩ 1,953,535	₩ 329,722	₩ -	₩ 2,283,257
2	2,896,822	644,231	379,541	3,920,594	169,970	2	4,090,566
3	2,811,284	1,858,162	201	4,669,647	150,760	-	4,820,407
4	4,300,546	3,822,228	164,504	8,287,278	482,744	118	8,770,140
5	2,380,653	16,199,850	429,424	19,009,927	930,940	160	19,941,027
6	2,414,811	17,432,529	320,006	20,167,346	1,075,822	57	21,243,225
7	1,225,464	858,780	339	2,084,583	172,715	-	2,257,298
Unrated	544,230	1,236,873	147,697	1,928,800	1,831,545	4,389,077	8,149,422
	₩ 17,829,261	₩42,242,261	₩ 1,950,188	₩62,021,710	₩5,144,218	₩4,389,414	₩71,555,342

Details of loans and receivables past due but not impaired as of December 31, 2016 and 2015, are summarized as follows (Unit: Korean won in millions):

	December 31, 2016						
	Loans in local currency						
Credit rating	Household	Corporates	Public sector	Subtotal	Other loans	Receivables	Total
Less than one month	₩ 54,358	₩ 82,609	₩ 1,244	₩ 138,211	₩ 26,622	₩ -	₩ 164,833
Less than two months	15,953	21,839	338	38,130	8,759	-	46,889
Less than three months	12,143	9,478	95	21,716	6,167	-	27,883
	₩ 82,454	₩ 113,926	₩ 1,677	₩ 198,057	₩ 41,548	₩ -	₩ 239,605

	December 31, 2015						
	Loans in local currency						
Credit rating	Household	Corporates	Public sector	Subtotal	Other loans	Receivables	Total
Less than one month	₩ 57,350	₩ 75,617	₩ 558	₩ 133,525	₩ 28,423	₩ -	₩ 161,948
Less than two months	14,354	18,048	178	32,580	9,650	-	42,230
Less than three months	9,771	7,799	96	17,666	5,910	-	23,576
	₩ 81,475	₩ 101,464	₩ 832	₩ 183,771	₩ 43,983	₩ -	₩ 227,754

b. Creditworthiness of securities

Creditworthiness of securities neither past due nor impaired as of December 31, 2016 and 2015, is summarized as follows (Unit: Korean won in millions):

	December 31, 2016						
	AAA	AA	A	BBB	BB	Unrated	Total
Financial assets held for trading (excluding bills bought, etc.)	₩1,072,691	₩ 80,452	₩107,193	₩ 18,930	₩ 2,138	₩ 22,496	₩ 1,303,900
AFS financial assets	4,412,831	608,691	15,984	-	-	2	5,037,508
HTM financial assets	5,963,626	229,321	8,498	-	-	-	6,201,445
	₩11,449,148	₩ 918,464	₩131,675	₩ 18,930	₩ 2,138	₩ 22,498	₩12,542,853

	December 31, 2016					
Classification	A1	A2	A3	B	Unrated	Total
Financial assets at FVTPL						
Financial assets held for trading (bills bought, etc.)	₩ 22,989	₩ 238,720	₩ 13,571	₩ 8,739	₩ 1,347	₩ 285,366

	December 31, 2015						
	AAA	AA	A	BBB	BB	Unrated	Total
Financial assets held for trading (excluding bills bought, etc.)	₩ 551,547	₩ 48,923	₩ 65,126	₩ 18,802	₩ 2,535	₩ 17,855	₩ 704,788
AFS financial assets	3,536,728	805,011	20,077	-	-	-	4,361,816
HTM financial assets	6,598,673	245,228	-	-	-	8	6,843,909
	₩10,686,948	₩ 1,099,162	₩ 85,203	₩ 18,802	₩ 2,535	₩ 17,863	₩11,910,513

	December 31, 2015					
Classification	A1	A2	A3	B	Unrated	Total
Financial assets at FVTPL						
Financial assets held for trading (bills bought, etc.)	₩ 30,827	₩ 118,384	₩ 78,578	₩ -	₩ 1,348	₩ 229,137

6) <u>Allowance for credit loss and bad debts written off</u>

To ensure the creditworthiness of asset quality and maintain the sufficiency of equity, the Consolidated Entity manages and sets up allowance for credit loss on loans and receivables entailing credit risk.

The Consolidated Entity estimates impairment losses and recognizes it as profit and loss for the current reporting period if there is objective evidence that the book values of loans and receivables are impaired at closing date. As impairment losses are only recognized when incurred under K-IFRS, the Consolidated Entity does not recognize losses for future impairment event, although impairment is likely to occur. Impairment of loans can be directly subtracted from the book value of assets and by using allowance for credit loss. The Consolidated Entity estimates the incurred losses that are inherent in financial assets and records them in the consolidated financial statements by deducting book value of assets as the account of allowance for credit loss.

7) Loans and receivables by assessment method

Loans and receivables by valuation method as of December 31, 2016 and 2015, are summarized as follows (Unit: Korean won in millions):

	December 31, 2016								
	Individual Assessment			Collective Assessment			Total		
Classification	Loans	Allowance	Allowance rate (%)	Loans	Allowance	Allowance rate (%)	Loans	Allowance	Allowance rate (%)
Loans in Korean won	₩ 594,874	₩ 197,393	33.18	₩ 66,707,126	₩ 393,771	0.59	₩ 67,302,000	₩ 591,227	0.88
Loans in foreign currencies (*1)	10,432	7,179	68.82	1,336,901	11,698	0.88	1,347,333	18,877	1.40
Others	54,869	3,770	6.87	5,941,768	61,653	1.04	5,996,637	65,360	1.09
	₩ 660,175	₩ 208,342	31.56	₩ 73,985,795	₩ 467,122	0.63	₩ 74,645,970	₩ 675,464	0.90

(*1) Include offshore loans, interbank loans in foreign currencies and domestic import usance bills

	December 31, 2015								
	Individual Assessment			Collective Assessment			Total		
Classification	Loans	Allowance	Allowance rate (%)	Loans	Allowance	Allowance rate (%)	Loans	Allowance	Allowance rate (%)
Loans in Korean won	₩ 822,680	₩ 234,335	28.48	₩ 62,209,215	₩ 383,236	0.62	₩ 63,031,895	₩ 617,571	0.98
Loans in foreign currencies (*1)	24,105	17,787	73.79	1,268,881	13,513	1.06	1,292,986	31,300	2.42
Others	84,877	9,984	11.76	8,255,124	54,705	0.66	8,340,001	64,689	0.78
	₩ 931,662	₩ 262,106	28.13	₩ 71,733,220	₩ 451,454	0.63	₩ 72,664,882	₩ 713,560	0.98

(*1) Include offshore loans, interbank loans in foreign currencies and domestic import usance bills.

8) Details of pledged assets and estimated fair value

The fair value of collaterals pledged for loans in Korean won as of December 31, 2016 and 2015, is summarized as follows (Unit: Korean won in millions):

	December 31, 2016			
Classification	Household	Corporates	Others	Total
Movables and real estate	₩ 9,509,226	₩ 20,147,093	₩ 311,434	₩ 29,967,753
Securities and bonds	408,275	959,441	29,910	1,397,626
Guarantee	5,602,941	4,080,226	103,673	9,786,840
Others	75,558	237,573	16,244	329,375
	₩ 15,596,000	₩ 25,424,333	₩ 461,261	₩ 41,481,594

	December 31, 2015			
Classification	Household	Corporates	Others	Total
Movables and real estate	₩ 8,925,139	₩ 18,943,938	₩ 302,478	₩ 28,171,555
Securities and bonds	400,151	1,023,008	25,463	1,448,622
Guarantee	3,508,543	3,419,170	96,401	7,024,114
Others	68,181	233,304	16,135	317,620
	₩ 12,902,014	₩ 23,619,420	₩ 440,477	₩ 36,961,911

9) Concentration analysis of credit risk

a. The details of loans and receivables by borrower's country as of December 31, 2016 and 2015, are summarized as follows (Unit: Korean won in millions):

	December 31, 2016		December 31, 2015	
Classification	Amount	Rate (%)	Amount	Rate (%)
The Republic of Korea	₩ 74,286,847	99.52	₩ 72,291,059	99.49
China	155,905	0.21	28,685	0.04
Others	203,218	0.27	345,138	0.47
	₩ 74,645,970	100.00	₩ 72,664,882	100.00

b. Loans in local currency and foreign currencies by industry as of December 31, 2016 and 2015, are summarized as follows (Unit: Korean won in millions):

	December 31, 2016				
	Loans in Korean won and foreign currencies	Financial assets at FVTPL	AFS financial assets	HTM financial assets	Total
Mining	₩ 56,383	₩ -	₩ 69,751	₩ 30,000	₩ 156,134
Manufacturing	20,228,573	45,407	10,039	-	20,284,019
Electricity, gas, steam and water service	254,441	1,917	140,535	238,966	635,859
Construction	2,414,412	43,544	80,542	495,237	3,033,735
Wholesale and retail	5,195,255	11,978	-	-	5,207,233
Transportation	2,254,464	20,675	211,868	177,287	2,664,294
Lodging and restaurant business	1,962,007	3,864	-	-	1,965,871
Publishing, visual entertainment, broadcasting and information	324,308	-	1,338	-	325,646
Financial and insurance business	925,851	395,059	2,415,776	1,474,378	5,211,064
Real estates and lease business	9,217,353	15	400,189	235,661	9,853,218
Business facility management and business support services	180,954	-	35,867	140,765	357,586
Public, national defense and social security system	1,213,631	223,624	1,391,347	3,198,333	6,026,935
Associations, organizations and household	851,675	-	260,330	200,358	1,312,363
Others	23,630,451	845,904	19,926	10,460	24,506,741
	₩ 68,709,758	₩ 1,591,987	₩ 5,037,508	₩ 6,201,445	₩ 81,540,698

	December 31, 2015				
	Loans in Korean won and foreign currencies	Financial assets at FVTPL	AFS financial assets	HTM financial assets	Total
Mining	₩ 40,250	₩ -	₩ 50,646	₩ 30,000	₩ 120,896
Manufacturing	20,456,239	54,497	20,259	-	20,530,995
Electricity, gas, steam and water service	212,478	747	75,227	323,159	611,611
Construction	2,728,624	72,698	284,014	641,725	3,727,061
Wholesale and retail	4,567,806	3,215	-	-	4,571,021
Transportation	2,148,628	9,455	80,814	213,187	2,452,084
Lodging and restaurant business	1,493,397	-	-	-	1,493,397
Publishing, visual entertainment, broadcasting and information	293,570	3,912	2,000	-	299,482
Financial and insurance business	977,796	383,107	1,943,759	1,593,629	4,898,291
Real estates and lease business	7,665,674	-	398,226	225,788	8,289,688
Business facility management and business support services	166,412	-	70,846	181,085	418,343
Public, national defense and social security system	1,236,912	98,536	1,144,587	3,434,741	5,914,776
Associations, organizations and household	657,422	-	274,223	200,587	1,132,232
Others	21,679,673	307,758	17,215	8	22,004,654
	₩ 64,324,881	₩ 933,925	₩ 4,361,816	₩ 6,843,909	₩ 76,464,531

(3) Liquidity Risk

1) General

Liquidity risk is the risk that the Consolidated Entity is unable to meet its payment obligations arising from financial liabilities as they fall due. The Consolidated Entity classifies and discloses contractual maturity of all financial liabilities into six categories in relation to liquidity risk, such as immediately payable, less than one month, one month to three months, three months to one year, less than one year, one year to five years and more than five years. Although off-balance-sheet items, such as loan commitment and financial guarantees, have contractual maturities, they are separately disclosed as the Consolidated Entity will pay them immediately upon counterparty's request for payment.

The cash flows disclosed in the maturity analysis are undiscounted contractual amounts, including principal and future interest payments, which resulted in disagreement with the discounted cash flows included in the consolidated statements of financial position.

2) Liquidity risk management

General principles and the overall framework for managing liquidity risk across the Consolidated Entity are defined in the liquidity risk policy by risk management regulation, risk management instruction and liquidity risk manual.

All transactions that affect inflows and outflows of Korean/foreign currency funds across the Consolidated Entity are subject to the liquidity risk management. Liquidity risk is centrally managed and controlled by the Financial Planning Department, which reports its analysis and statics of the liquidity, including liquidity gap, liquidity ratio, maturity mismatch ratio and liquidity risk situation, to the asset-liability management committee ("ALCO"). The financial strategies that are required to achieve the Consolidated Entity's risk management goal, including liquidity risk management, are set out and overseen by the ALCO.

3) Remaining contractual maturity analysis of non-derivative and derivative financial liabilities

a. The Consolidated Entity's non-derivative financial liabilities as of December 31, 2016 and 2015, are summarized by remaining contractual maturity as follows (Unit: Korean won in millions):

	December 31, 2016					
	Less than one month	1–3 months	3–12 months	1–5 years	More than five years	Total
Financial liabilities (*1):						
Deposits	₩32,462,946	₩ 9,727,631	₩23,749,821	₩ 2,375,981	₩ 302,227	₩68,618,606
Borrowings	2,301,000	709,438	1,159,582	1,940,930	375,982	6,486,932
Debentures	151,285	836,318	2,056,807	4,561,003	1,816,971	9,422,384
Other financial liabilities (*2)	2,886,962	18,588	52,767	158,064	250,104	3,366,485
Total	₩37,802,193	₩11,291,975	₩27,018,977	₩ 9,035,978	₩ 2,745,284	₩87,894,407
Derivative liabilities:						
Derivatives for hedging	(1,194)	193	9,963	3,193	24,365	36,520
Derivatives for trading	22,669	30,153	80,341	9,624	-	142,787
Total	₩ 21,475	₩ 30,346	₩ 90,304	₩ 12,817	₩ 24,365	₩ 179,307

(*1) Principal and interest are included in financial liabilities.
(*2) Consist of accounts payable, accrued expenses and leasehold deposits received and others.

	December 31, 2015					
	Less than one month	1–3 months	3–12 months	1–5 years	More than five years	Total
Financial liabilities (*1):						
Deposits	₩28,585,506	₩10,643,454	₩ 23,826,931	₩ 2,043,730	₩ 184,836	₩65,284,457
Borrowings	1,845,828	741,436	1,245,856	2,013,781	457,508	6,304,409
Debentures	208,745	304,873	1,616,746	5,280,270	1,369,027	8,779,661
Other financial liabilities (*2)	4,390,371	19,802	100,491	161,381	294,466	4,966,511
Total	₩35,030,450	₩11,709,565	₩ 26,790,024	₩ 9,499,162	₩ 2,305,837	₩85,335,038
Derivative liabilities:						
Derivatives for hedging	3,234	4,977	20,228	17,942	-	46,381
Derivatives for trading	15,298	22,134	85,029	3,123	-	125,584
Total	₩ 18,532	₩ 27,111	₩ 105,257	₩ 21,065	₩ -	₩ 171,965

(*1) Principal and interest are included in financial liabilities.
(*2) Consist of accounts payable, accrued expenses and leasehold deposits received and others.

4) Marginal residual maturity (payment guarantee, commitments, etc.)

Guarantees, loan commitments and other credit facilities provided by the Consolidated Entity have maturities. However, if the counterparty requests the payment immediately, the payment must be fulfilled. The off-balance-sheet items as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification	December 31, 2016	December 31, 2015
Guarantees	₩ 1,356,423	₩ 1,624,113
Loan commitments	11,354,898	8,889,696
	₩ 12,711,321	₩ 10,513,809

(4) Market Risk

1) General

Market risk is the risk to the Consolidated Entity's earnings arising from changes in interest rates, stock price, currency exchange rates and commodity prices. It is derived from loans, deposits, securities and derivatives and generated through both trading and non-trading positions. The trading market risk that the Consolidated Entity is mainly exposed to is the interest rate risk arising from the change in the value of debt instruments and interest rate-embedded securities due to changes in market interest rate. The Consolidated Entity is additionally exposed to stock price and foreign exchange rate fluctuation risk arising from loans, receivables, deposits, securities and financial derivatives.

2) Market risk management

The Consolidated Entity monitors and sets up the economic capital limit of market risk and interest rate risk to manage trading and non-trading positions. To manage market risk effectively, trading position enforces trading policy regulation and market risk manual, while non-trading position enforces interest rate risk manual, risk management system and procedure. All such processes are approved by the Consolidated Entity's ALCO and risk management council.

The Consolidated Entity's risk management council establishes overall market risk management principles. It has delegated the responsibility of the market risk management for trading activities to the Market Risk Management Subcommittee of the Consolidated Entity. Based on the policies approved by the Consolidated Entity's risk management council, the Market Risk Management Subcommittee reviews and approves reports as required that include trading profits and losses, position reports, limit utilization, sensitivity analysis and VaR results from the trading activities.

Determination of interest rate and commission rate, enactment and amendment of asset-liability management ("ALM") risk management policy and interest rate and commission rate guidelines and analysis of monthly ALM risks are the responsibilities of the ALCO. Interest rate risk limits are determined based on asset-liability position and expected interest rate volatility considering annual operational planning, and are centrally measured and monitored by the financial planning team. Responsibility for management of interest rate risks, such as interest rate gap, duration gap, sensitivity and compliance, with interest rate risk limits policy resides with the Risk Management department, which reports the results to the ALCO on a monthly basis.

3) Market risk management for trading activities

a. Definition of trading position

The trading position in accordance with 'Regulation of Trading Policy' is subject to the trading market management. The basic requirements of the trading position are as follows:

- The target position is not restricted to the sale. It is daily evaluated at fair value and should be a hedge against important risks in the market.
- The trading position should be controlled by the instruction of the trading policy and managed by a separate trading department.
- The target position is operated in accordance with a documented trading strategy and the limit of trading should be controlled.
- Without the prior approval, a professional dealer or an operation division for the target position should be authorized to handle transactions within the predetermined limit.
- The target position to control risk should be periodically reported to management.

b. Measurement of market risk occurring at trading position

The Consolidated Entity measures market risk as VaR that is calculated by market risk management system. It generally manages market risk arising from the trading position at the level of the portfolio.

To manage the market risk, the Consolidated Entity monitors and sets up the economic capital limit based on VaR. It sets up and monitors the economic capital limit, position limit and loss cut within the economic capital limit. According to the regulations and rules of the Financial Supervisory Service, the Consolidated Entity controls and manages risks of derivative transactions.

c. VaR

① VaR measurement

The Consolidated Entity uses daily VaR to measure market risk. Daily VaR is a statistically estimated maximum amount of loss that could occur in one day under normal distribution of financial variables. The Consolidated Entity uses a 99% single-tail confidence level, based on past 250 business days, to measure daily VaR, which means the actual amount of loss may exceed the VaR, on average, once out of 100 business days. VaR is a commonly used market risk management technique; however, this approach does have some shortcomings.

The VaR measures the potential loss in value of a risky asset or portfolio based on historical market movements over a defined period for a given confidence interval. However, it is not always possible in practice that the historical market movements reflect all future conditions and circumstances, which results in variance in actual loss timing and size due to the changes in assumptions used in the calculation. In addition, the time periods used for the model, generally one day or 10 days, are assumed to be sufficient holding periods 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.

② Back testing

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

③ Stress testing

The Consolidated Entity uses stress testing to assess market risk exposure to abnormal market fluctuations, such as interest rate, equity price, exchange rate and implied volatility of derivatives. The Consolidated Entity uses not only historical scenarios as a main scenario, but also hypothetical scenarios as a supplementary analysis. Stress testing projects the anticipated change in value of holding positions under certain scenarios assuming that no action is taken during a stress event to change the risk profile of a portfolio. Stress testing is conducted at least more than once within a quarter.

i) Busan Bank

The following table shows VaR as of December 31, 2016 and 2015, at 99% confidence level for a one-day holding period, for interest rate risk, equity price risk and foreign exchange rate risk related to trading activities (Unit: Korean won in millions):

	December 31, 2016							
Classification	High		Low		Average		Ending	
Interest rate risk	₩	202	₩	117	₩	136	₩	117
Equity price risk		-		-		-		-
Foreign exchange rate risk		343		187		235		240
Diversification		(191)		(75)		(93)		(61)
Total VaR	₩	354	₩	229	₩	278	₩	296

	December 31, 2015							
Classification	High		Low		Average		Ending	
Interest rate risk	₩	174	₩	104	₩	134	₩	173
Equity price risk		-		-		-		-
Foreign exchange rate risk		645		20		217		259
Diversification		(170)		(9)		(76)		(103)
Total VaR	₩	649	₩	115	₩	275	₩	329

ii) Kyongnam Bank

The following table shows VaR as of December 31, 2016 and 2015, at 99% confidence level for a one-day holding period, for interest rate risk, equity price risk and foreign exchange rate risk related to trading activities (Unit: Korean won in millions):

	December 31, 2016							
Classification	High		Low		Average		Ending	
Interest rate risk	₩	255	₩	64	₩	105	₩	64
Equity price risk		194		39		185		39
Foreign exchange rate risk		33		21		23		21
Diversification		(72)		(29)		(40)		(29)
Total VaR	₩	410	₩	95	₩	273	₩	95

	December 31, 2015							
Classification	High		Low		Average		Ending	
Interest rate risk	₩	353	₩	10	₩	99	₩	19
Equity price risk		377		-		164		6
Foreign exchange rate risk		98		5		21		39
Diversification		(366)		(2)		(74)		(23)
Total VaR	₩	462	₩	13	₩	210	₩	41

The total VaR becomes smaller than the total of interest rate risk, equity price risk and foreign exchange rate risk due to diversification effect.

d. Details by risk factors

① Interest rate risk
Interest rate risk from trading activities arises mainly from the Consolidated Entity's trading of Korean won-denominated debt securities. The Consolidated Entity's trading strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates. As the Consolidated Entity's trading accounts are marked to market daily, it manages the interest risk related to its trading accounts using market value-based tools, such as VaR and sensitivity analysis.

② Equity price risk
Equity prick risk results from the Consolidated Entity's equity trading portfolio in Korean won since it does not have any trading exposure to shares denominated in foreign currencies. The equity trading portfolio in Korean won consists of exchange-traded stocks and nearest-month or second-nearest-month futures contracts under the strict diversified investment limits. The Consolidated Entity's risk management council sets annual and monthly stop-loss limits, position limits and sensitivity limits that are daily monitored by its Risk Management department.

③ Foreign exchange rate risk
Foreign exchange rate risk arises because the Consolidated Entity has assets and liabilities that are denominated in currencies other than Korean won, as well as off-balance-sheet items, such as foreign exchange forwards and currency swaps. Assets and liabilities denominated in U.S. dollars, Japanese yen and Euro are typically accounted for the majority of the Consolidated Entity's foreign currency assets and liabilities. The Consolidated Entity oversees its foreign exchange rate exposure for both trading and non-trading purposes by establishing a limit for net foreign currency open position, together with stop-loss limits.

4) <u>Market risk management for non-trading activities</u>

a. Definition of non-trading position

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

b. Measurement of market risk occurring at non-trading position

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

(5) Operational risk

1) <u>General</u>

The Consolidated Entity defines operational risk broadly to include all financial and non-financial risks that may arise from its operations that could negatively affect its capital.

2) <u>Operational risk management</u>

The Consolidated Entity's operational risk management objectives include not only satisfying regulatory requirements, but also providing internal support through the encouragement of a strong risk management culture, reinforcement of internal controls, improvement of work processes and provision of timely feedback to management members and staff throughout the Consolidated Entity.

(6) Capital management

In accordance with financial holding Group regulations, the Consolidated Entity is required to maintain a minimum 8% of the capital adequacy ratio. The capital adequacy ratio must correspond to the standard of capital regulation of the Bank for International Settlements (BIS), and is calculated by dividing own capital by asset (weighted with a risk premium – risk-weighted assets) based on the consolidated financial statements of a holding group. The Consolidated Entity calculates its capital adequacy ratio under Basel I, according to the Regulation on the Supervision of Financial Holding Companies.

The risk-weighted asset includes intrinsic risks in total assets, errors of internal operation processes and loss risk from external events. It indicates a size of assets reflecting the level of risks that the Consolidated Entity bears. The Consolidated Entity computes the risk-weighted asset by risk (credit risk, market risk and operational risk) and uses it for calculation of BIS capital ratio.

In accordance with financial holding Group regulations, the Consolidated Entity must maintain the capital stock-common ratio of 5.125%, Tier 1 capital ratio of 6.625% and total capital ratio of 8.625% as of December 31, 2016.

The Consolidated Entity's BIS capital ratios as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	December 31, 2016		December 31, 2015	
Capital stock - common (A)	₩	6,122,007	₩	4,742,738
Other basic capital (B)		510,987		552,812
Tier 2 capital (C)		1,913,290		2,318,770
Total capital (D)		8,546,284		7,614,320
Credit risk-weighted assets		61,944,205		60,816,076
Market risk-weighted assets		311,525		358,038
Operational risk-weighted assets		4,223,107		3,963,777
Total risk-weighted assets (E)	₩	66,478,837	₩	65,137,891
Capital stock - common ratio (A/E)		9.21		7.28
Tier 1 capital ratio ((A+B)/E) (%)		9.98		8.13
Total capital ratio (D/E) (%)		12.86		11.69

5. SEGMENT INFORMATION:

(1) General

Segment information indicates details of the Consolidated Entity's divisions. Main divisions of business are based on the Consolidated Entity's internal report. The Consolidated Entity consists of four business divisions: bank, securities, credit specialized and others. Such business divisions are divided by products, characteristics of services, customers and organization of the Consolidated Entity. Based on these categories, the main information by division is disclosed as follows.

Operations by division for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	2016								
Classification	Busan Bank	Kyongnam Bank	BNK Securities	BNK Capital	BNK Savings Bank	Others	Total	Adjustment	Consolidated financial statements
Net interest income	₩1,152,256	₩ 784,656	₩ 7,982	₩ 211,772	₩32,366	₩ (35,276)	₩2,153,756	₩ (13,363)	₩2,140,393
Net commission income	75,330	40,649	21,381	14,686	(196)	18,733	170,583	(2,521)	168,062
Net income of Financial assets at FVTPL	(1,988)	(660)	7,088	-	-	-	4,440	(210)	4,230
Net income of AFS Financial assets	35,962	25,575	-	-	(137)	-	61,400	(6,331)	55,069
Provision for credit loss and others	(189,841)	(160,083)	3	(78,829)	(2,613)	-	(431,363)	(21)	(431,384)
General and administrative expenses	(579,007)	(399,584)	(34,461)	(59,955)	(13,587)	(33,671)	(1,120,265)	(1,887)	(1,122,152)
Other operating expenses, net	(66,103)	(22,796)	10,526	(13,347)	(2,916)	10,170	(84,466)	(17,471)	(101,937)
Net non-operating income	(5,681)	868	127	174	(18,092)	(1,866)	(24,470)	593	(23,877)
Income before income tax expense	420,928	268,625	12,646	74,501	(5,175)	(41,910)	729,615	(41,211)	688,404
Income tax expense	(94,063)	(60,460)	(3,290)	(17,293)	(2,876)	(501)	(178,483)	8,193	(170,290)
Net income	326,865	208,165	9,356	57,208	(8,051)	(42,411)	551,132	(33,018)	518,114
Total assets	51,649,492	35,559,533	1,064,121	4,692,578	769,064	5,836,025	99,570,813	(6,088,624)	93,482,189
Total liabilities	47,436,007	32,712,012	849,993	4,130,223	653,632	1,232,165	87,014,032	(618,996)	86,395,036

	2015								
Classification	Busan Bank	Kyongnam Bank	BNK Securities	BNK Capital	BNK Savings Bank	Others	Total	Adjustment	Consolidated financial statements
Net interest income	₩1,095,685	₩727,771	₩5,580	₩195,023	₩29,940	₩(35,403)	₩2,018,596	₩15,385	₩2,033,981
Net commission income	112,484	48,486	21,109	17,119	(408)	7,712	206,502	(2,019)	204,483
Net income of Financial assets at FVTPL	(3,228)	3,141	4,940	-	-	(102)	4,751	-	4,751
Net income of AFS Financial assets	53,281	78,089	-	-	30	-	131,400	16	131,416
Provision for credit loss and others	(199,089)	(165,177)	258	(75,175)	(8,442)	-	(447,625)	307	(447,318)
General and administrative expenses	(577,156)	(387,950)	(31,682)	(54,212)	(12,982)	(29,452)	(1,093,434)	(10,146)	(1,103,580)
Other operating expenses, net	(63,161)	(43,833)	10,004	(27,397)	(2,846)	68,795	(58,438)	(69,119)	(127,557)
Net non-operating income	(3,885)	10,057	133	(38)	732	(4,072)	2,927	958	3,885
Income before income tax expense	414,931	270,584	10,342	55,320	6,024	7,478	764,679	(64,618)	700,061
Income tax expense	(94,590)	(60,046)	(2,545)	(11,874)	(1,259)	(306)	(170,620)	1,030	(169,590)
Net income	320,341	210,538	7,797	43,446	4,765	7,172	594,059	(63,588)	530,471
Total assets	50,262,692	34,641,993	539,944	4,287,110	795,607	5,324,455	95,851,801	(5,572,253)	90,279,548
Total liabilities	46,460,591	32,184,386	384,678	3,781,825	672,122	1,163,891	84,647,493	(558,628)	84,088,865

(2) Information on financial services and geographical areas

As the financial products of the Consolidated Entity are categorized as interest bearing, non-interest bearing and others and the categorization is already reflected in the composition of the reportable segments above, revenue from external customers is not separately disclosed. Revenue by geographical areas is not separately disclosed, as the Consolidated Entity operates its business domestically.

6. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES:

(1) The carrying amount of financial instruments by category

All financial instruments (financial assets and financial liabilities) are measured at fair value or at amortized cost in accordance with going-concern assumptions.

The carrying amounts of financial assets and financial liabilities by each category as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

December 31, 2016

Classification	Financial assets at FVTPL								
	Financial assets held for trading	Financial assets designated as at FVTPL	Derivatives for trading	Derivatives for hedging	Loans and receivables	AFS financial assets	HTM financial assets	Amortized financial liabilities	Total
Financial assets:									
Cash and due from bank	-	-	-	-	2,555,439	-	-	-	2,555,439
Financial assets at FVTPL	1,665,846	2,721	-	-	-	-	-	-	1,668,567
AFS financial assets	-	-	-	-	-	6,139,928	-	-	6,139,928
HTM financial assets	-	-	-	-	-	-	6,201,445	-	6,201,445
Loans and receivables	-	-	-	-	74,087,010	-	-	-	74,087,010
Derivative assets	-	-	157,089	114	-	-	-	-	157,203
Total	₩ 1,665,846	₩ 2,721	₩ 157,089	₩ 114	₩ 76,642,449	₩ 6,139,928	₩ 6,201,445	₩ -	₩ 90,809,592
Financial liabilities:									
Deposits	-	-	-	-	-	-	-	67,604,391	67,604,391
Borrowings	-	-	-	-	-	-	-	6,332,708	6,332,708
Debentures	-	-	-	-	-	-	-	8,781,598	8,781,598
Derivative liabilities	-	-	129,040	27,674	-	-	-	-	156,714
Other liabilities	-	-	-	-	-	-	-	3,176,850	3,176,850
Total	₩ -	₩ -	₩ 129,040	₩ 27,674	₩ -	₩ -	₩ -	₩ 85,895,547	₩ 86,052,261

December 31, 2015

Classification	Financial assets at FVTPL								
	Financial assets held for trading	Financial assets designated as at FVTPL	Derivatives for trading	Derivatives for hedging	Loans and receivables	AFS financial assets	HTM financial assets	Amortized financial liabilities	Total
Financial assets:									
Cash and due from bank	-	-	-	-	1,947,373	-	-	-	1,947,373
Financial assets at FVTPL	1,001,487	9,956	-	-	-	-	-	-	1,011,443
AFS financial assets	-	-	-	-	-	5,247,715	-	-	5,247,715
HTM financial assets	-	-	-	-	-	-	6,843,909	-	6,843,909
Loans and receivables	-	-	-	-	72,057,993	-	-	-	72,057,993
Derivative assets	-	-	177,928	-	-	-	-	-	177,928
Total	₩ 1,001,487	₩ 9,956	₩ 177,928	₩ -	₩74,005,366	₩ 5,247,715	₩ 6,843,909	₩ -	₩87,286,361
Financial liabilities:									
Deposits	-	-	-	-	-	-	-	64,361,451	64,361,451
Borrowings	-	-	-	-	-	-	-	6,025,842	6,025,842
Debentures	-	-	-	-	-	-	-	8,152,822	8,152,822
Derivative liabilities	-	-	170,331	-	-	-	-	-	170,331
Other liabilities	-	-	-	-	-	-	-	4,966,511	4,966,511
Total	₩ -	₩ -	₩ 170,331	₩ -	₩ -	₩ -	₩ -	₩ 83,506,626	₩ 83,676,957

(2) Fair value assessment method and assumptions are as follows:

Classification	Fair value measurement technique
Securities	The fair value of financial instruments that are quoted in active markets is determined using the quoted prices. Fair value is determined by independent third-party pricing services when quoted prices are not available. Pricing services use one or more of the valuation techniques, including Discounted Cash Flow Model (“DCF”), Imputed Market Value Model, Free Cash Flow to Equity Model, Dividend Discount Model, Risk-Adjusted Discount Rate Method and Net Asset Value Method.
Loans and receivables	DCF is used to determine the fair value of loans and receivables. Fair value is determined by using appropriate discount rate to calculate the expected cash flows by contractual cash flows with prepayment rate taken into account. For those loans and receivables with the residual maturities of less than three months as of the closing date and the ones with reset period of less than three months, the carrying amount is regarded as fair value.
Derivatives	For exchange-traded derivative, a quoted price in active market is used to determine fair value and for over-the-counter (“OTC”) derivative, fair value is determined using valuation techniques. The Consolidated Entity uses internally developed valuation models that are widely used by market participants to determine fair value of plain OTC derivatives, including options, interest rate swap and currency swap, based on observable market parameters. However, some complex financial instruments are valued using advanced internal valuation model or the results of independent pricing services, where part or all of the inputs are not observable in the market. OTC derivatives with closed-form solution in its valuation are valued using appropriate model. Complex derivative instruments where its valuation method cannot be defined by closed-form solution are valued using techniques, including Finite Difference Method and MonteCarlo Simulation.
Deposits	The carrying amount of demand deposit is regarded as fair value as it does not have maturity and the amount approximates the fair value. Fair value of time deposit is determined using DCF. Fair value is determined using appropriate discount rate and the expected cash flows by contractual cash flows with prepayment rate taken into account. For those deposits with the residual maturities of less than three months as of the closing date and the ones with a reset period of less than three months, the carrying amount is regarded as fair value.
Borrowings	Fair value is determined using DCF discounting contractual future cash flows by appropriate discount rate. However, for those borrowings with the residual maturities of less than three months as of the closing date and the ones with a reset period of less than three months, the carrying amount is regarded as fair value.
Debentures	Fair value is determined by using the valuation of independent third-party pricing services in accordance with the market prices that are quoted in active markets.
Other financial liabilities	For financial liabilities with the residual maturities of less than three months as of the closing date and the ones with a reset period of less than three months, the carrying amount is regarded as fair value.

(3) Fair value hierarchy of financial instruments that are subsequently measured at fair value

1) The fair value of financial instruments, measured at fair value after initial recognition, as of December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Classification	December 31, 2016				
	Book value	Fair value	Level 1	Level 2	Level 3
Financial assets:					
Financial assets at FVTPL:					
Financial assets held for trading	₩ 1,665,846	₩ 1,665,846	₩ 496,120	₩ 1,169,726	₩ -
Designated as at FVTPL	2,721	2,721	-	-	2,721
AFS financial assets	6,119,536	6,119,536	1,052,772	4,277,699	789,065
Derivative assets	157,203	157,203	184	156,558	461
	₩ 7,945,306	₩ 7,945,306	₩ 1,549,076	₩ 5,603,983	₩ 792,247
Financial liabilities:					
Derivative liabilities	₩ 156,714	₩ 156,714	₩ 106	₩ 156,608	₩ -

Classification	December 31, 2015				
	Book value	Fair value	Level 1	Level 2	Level 3
Financial assets:					
Financial assets at FVTPL:					
Financial assets held for trading	₩ 1,001,487	₩ 1,001,487	₩ 85,534	₩ 915,953	₩ -
Designated as at FVTPL	9,956	9,956	-	-	9,956
AFS financial assets	5,233,100	5,232,599	823,741	3,681,486	727,372
Derivative assets	177,928	177,928	121	177,784	23
	₩ 6,422,471	₩ 6,421,970	₩ 909,396	₩ 4,775,223	₩ 737,351
Financial liabilities:					
Derivative liabilities	₩ 170,331	₩ 170,331	₩ 128	₩ 170,203	₩ -

2) The valuation techniques and the input variables of Level 2 financial instruments, measured at fair value after initial recognition, as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification	December 31, 2016		
	Fair value	Valuation techniques	Input variables
Financial assets:			
Financial assets at FVTPL			
Debt securities	₩ 1,143,163	- DCF Model	- Discount rate
Beneficiary certificates	26,563	- Net Asset Value Method	- The price of underlying assets
AFS financial assets			
Debt securities	3,981,922	- DCF Model	- Discount rate
Beneficiary certificates	295,777	- Net Asset Value Method	- The price of underlying assets
Derivative assets	156,558	- DCF Model	- Discount rate
Financial liabilities:			
Derivative liabilities	156,608	- DCF Model	- Discount rate

Classification	December 31, 2015		
	Fair value	Valuation techniques	Input variables
Financial assets:			
Financial assets at FVTPL			
Debt securities	₩ 895,853	- DCF Model	- Discount rate
Beneficiary certificates	20,100	- Net Asset Value Method	- The price of underlying assets
AFS financial assets			
Debt securities	3,531,764	- DCF Model	- Discount rate
Beneficiary certificates	149,722	- Net Asset Value Method	- The price of underlying assets
Derivative assets	177,784	- DCF Model	- Discount rate
Financial liabilities:			
Derivative liabilities	170,203	- DCF Model	- Discount rate

3) The valuation techniques, the input variables and the latent variables of Level 3 financial instruments, measured at fair value after initial recognition, as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions, except for stock price):

Classification	Fair value December 31, 2016	Fair value December 31, 2015	Valuation techniques	Range of significant unobservable inputs	Relationship between significant unobservable inputs and fair value
Financial assets:					
Financial assets at FVTPL	₩ 2,721	₩ 9,956	- Net Asset Value Method	- Value of underlying assets	Fair value increases (decreases) when value of underlying assets increases (decreases)
AFS financial assets					
Equity securities	454,591	412,984	- Free Cash Flow to Equity Model - Dividend Discount Model	- Discount rate: 2.35%–21.65% - Growth rate: 0–2.50% - Liquidating: 0.00%	Fair value increases (decreases) when discount rate decreases (increases), growth rate increases (decreases) or liquidating value increases (decreases)
Beneficiary certificates	334,474	314,388	- Net Asset Value Method	-n/a	Fair value increases (decreases) when price of underlying assets increases (decreases)
Derivative assets	461	23	- Binomial Trees	- Volatility: 27.87% - Discount rate: 1.27%–1.56%	Fair value increases (decreases) when volatility increases (decreases) or discount rate decreases (increases)

4) The following table shows the sensitivity analysis to disclose the effect of reasonably possible alternative assumptions on the fair value of Level 3 financial instruments for the years ended December 31, 2016 and 2015 (Unit: Korean won in millions):

	December 31, 2016			
	Net income (loss)		Other comprehensive income (loss)	
	Favorable	Unfavorable	Favorable	Unfavorable
Financial assets:				
AFS financial assets (*1)	₩ -	₩ (1)	₩ 15,345	₩ (8,082)
Derivative assets (*2)	512	(320)	-	-
	₩ 512	₩ (321)	₩ 15,345	₩ (8,082)

(*1) Fair value changes of securities are calculated by increasing or decreasing growth rate (0%–1%) and discount rate or liquidation value (-1%–1%) and discount rate. The growth rate, discount rate and liquidation value are major unobservable variables.

(*2) Fair value changes of equity derivatives and financial assets designed at FVTPL are calculated by increasing or decreasing historical fluctuation rate of stock price and correlation by 10%. The historical fluctuation rate of stock price and correlation are major unobservable variables.

	December 31, 2015			
	Net income (loss)		Other comprehensive income (loss)	
	Favorable	Unfavorable	Favorable	Unfavorable
Financial assets:				
AFS financial assets (*1)	₩ -	₩ (17)	₩ 25,894	₩ (10,969)
Derivative assets (*2)	25	(8)	-	-
	₩ 25	₩ (25)	₩ 25,894	₩ (10,969)

(*1) Fair value changes of securities are calculated by increasing or decreasing growth rate (0%–1%) and discount rate or liquidation value (-1%–1%) and discount rate. The growth rate, discount rate and liquidation value are major unobservable variables.

(*2) Fair value changes of equity derivatives and financial assets designed at FVTPL are calculated by increasing or decreasing historical fluctuation rate of stock price and correlation by 10%. The historical fluctuation rate of stock price and correlation are major unobservable variables.

5) The changes in Level 3 financial instruments for the year ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	2016		
	Financial assets at FVTPL	AFS financial assets	Derivative assets
Beginning balance	₩ 9,956	₩ 727,372	₩ 23
Total comprehensive income:			
Net income (*1)	(153)	(3,683)	(1,166)
Other comprehensive income	-	20,440	-
Purchases	2,721	80,257	1,604
Sales	(9,803)	(35,321)	-
Other changes			
Amounts reclassified from other levels	-	-	-
Amounts reclassified to other levels	-	-	-
Ending balance	₩ 2,721	₩ 789,065	₩ 461

	2015		
	Financial assets at FVTPL	AFS financial assets	Derivative assets
Beginning balance	₩ -	₩ 741,067	₩ 16
Total comprehensive income:			
Net income	-	54,569	7
Other comprehensive income	-	(17,592)	-
Purchases	9,956	64,980	-
Sales	-	(112,637)	-
Other changes			
Amounts reclassified from other levels (*2)	-	-	-
Amounts reclassified to other levels	-	(3,015)	-
Ending balance	₩ 9,956	₩ 727,372	₩ 23

(*1) 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 consolidated statement of comprehensive income for the year ended December 31, 2016, are as follows (Unit: Korean won in millions):

	AFS financial assets			
	Trading income	Impairment loss	Loss on valuation of derivatives	Total
Net income	₩ 2,559	₩ -	₩ -	₩ 2,559
Change in unrealized loss	-	(6,395)	(1,166)	(7,561)
	₩ 2,559	₩ (6,395)	₩ (1,166)	₩ (5,002)

(*2) It moved from Level 3 to Level 1 due to listing of equity securities during the reporting period.

6) At the reporting date, market prices are not disclosed in active trading market hence disabling credible measurement of fair value. Therefore, financial assets accounted for using cost basis are as follows:

Classification	Type	December 31, 2016	December 31, 2015
Financial assets:			
AFS financial assets	Unlisted equity securities	₩ 20,392	₩ 14,615

(4) Fair value measurement for financial assets subsequently not measured at fair value

1) The book value and the fair value of financial instruments subsequently not measured at fair value as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	December 31, 2016				
Classification	Book value	Fair value	Level 1	Level 2	Level 3
Financial assets:					
Loans	₩ 71,374,056	₩ 71,822,182	₩ -	₩ -	₩ 71,822,182
HTM securities	6,201,445	6,263,809	51,771	6,212,038	-
	₩ 77,575,501	₩ 78,085,991	₩ 51,771	₩ 6,212,038	₩ 71,822,182
Financial liabilities:					
Deposits	₩ 67,604,391	₩ 67,616,876	₩ -	₩ 28,185,343	₩ 39,431,533
Borrowings	6,332,708	6,358,530	219,182	6,030,375	108,973
Debentures	8,781,598	8,885,854	-	8,885,854	-
	₩ 82,718,697	₩ 82,861,260	₩ 219,182	₩ 43,101,572	₩ 39,540,506

	December 31, 2015				
Classification	Book value	Fair value	Level 1	Level 2	Level 3
Financial assets:					
Loans	₩ 67,685,374	₩ 67,923,563	₩ -	₩ -	₩ 67,923,563
HTM securities	6,843,909	6,978,027	81,759	6,896,268	-
	₩ 74,529,283	₩ 74,901,590	₩ 81,759	₩ 6,896,268	₩ 67,923,563
Financial liabilities:					
Deposits	₩ 64,361,451	₩ 64,079,573	₩ -	₩ 26,988,289	₩ 37,091,284
Borrowings	6,025,842	6,065,010	283,921	5,604,073	177,016
Debentures	8,152,822	8,441,048	-	8,441,048	-
	₩ 78,540,115	₩ 78,585,631	₩ 283,921	₩ 41,033,410	₩ 37,268,300

2) The valuation techniques and the input variables of Level 2 financial instruments subsequently not measured at fair value as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	December 31, 2016		
Classification	Fair value	Valuation techniques	Input variables
Financial assets:			
HTM financial assets			
Debt securities	₩ 6,212,038	- DCF Model	- Discount rate
Financial liabilities:			
Deposits	28,185,343	- DCF Model	- Discount rate
Borrowings	6,030,375	- DCF Model	- Discount rate
Debentures	8,885,854	- DCF Model	- Discount rate

Classification	December 31, 2015 Fair value		Valuation techniques	Input variables
Financial assets:				
HTM financial assets				
Debt securities	₩	6,896,268	- DCF Model	- Discount rate
Financial liabilities:				
Deposits		26,988,289	- DCF Model	- Discount rate
Borrowings		5,604,073	- DCF Model	- Discount rate
Debentures		8,441,048	- DCF Model	- Discount rate

3) The valuation techniques, the input variables and the latent variables of Level 3 financial instruments subsequently not measured at fair value as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	Fair value				Valuation techniques	Input variables
	December 31, 2016		December 31, 2015			
Financial assets:						
Loans	₩	71,822,182	₩	67,923,563	- DCF Model	- Discount rate
Financial liabilities:						
Deposits		39,431,533		37,091,284	- DCF Model	- Discount rate
Borrowings		108,973		177,016	- DCF Model	- Discount rate

(5) Gains and losses on valuation at transaction date

If the fair value of financial assets is measured by a method based on information not observable at initial recognition, the Consolidated Entity recognizes the fair value measured in case the fair value measured and the market prices differ. The difference between the fair value measured and the market price is not recognized as gains and losses in the period it occurs, but as deferred. The recognition method is as follows:

① Depreciation using straight-line method during the transaction term of financial assets.

② Deferred balance is immediately recognized as gains and losses if the fair value of financial assets is observable.

The differences and the changes in deferred gains or losses arising from remeasurement for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification	2016 Beginning balance		Increase		Amortization		Realization		Ending balance	
Deferred losses on valuation of stock options purchased	₩	14	₩	-	₩	(2)	₩	-	₩	12

Classification	2015 Beginning balance		Increase		Amortization		Realization		Ending balance	
Deferred losses on valuation of stock options purchased	₩	16	₩	-	₩	(2)	₩	-	₩	14

The Consolidated Entity used historical volatility rather than implied volatility observed in the market when assessing fair value of stock options purchased and stock options sold. Accordingly, day 1 profit, which is the difference between the fair value measured at the acquisition date and the transaction price, is not recognized as gains and losses in the period it occurs, but deferred.

(6) Transfer of financial assets

The Consolidated Entity holds securities pledged as collateral and Loaned Securities, and such transaction has resulted in transfer of assets. However, removal terms and conditions have not been satisfied hence transferred assets are being entirely recognized in the consolidated statements of financial position. Securities pledged as collateral are sold on an agreement where they will be repurchased on a fixed price, and securities pledged as collateral where the securities will be returned at the end of lease agreement hence risks and compensation of ownership remains within the Consolidated Entity.

The book values of transferred assets and related liabilities at the end of the reporting period are as follows:

	December 31, 2016		December 31, 2015	
	Book value of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Securities pledged as collateral	₩ 951,345	₩ (568,177)	₩ 908,809	₩ (669,835)
Loaned Securities	317,558	-	341,529	-
	₩ 1,268,903	₩ (568,177)	₩ 1,250,338	₩ (669,835)

(7) Offsetting financial instruments:

Details of financial instruments that are set off and subject to an enforceable master netting arrangement or similar agreement as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

1) December 31, 2016 (Unit: Korean won in millions):

	December 31, 2016					
				Non-offsetting amount		
Classification	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities to be set off	Net amounts of financial assets presented in the consolidated statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivatives assets	₩ 157,203	₩ -	₩ 157,203			
Receivable spot exchanges	1,613,281	-	1,613,280	₩ 1,360,813	₩ -	₩ 409,671
Bonds purchased under resale agreement	412,900	-	412,900	412,900	-	-
Domestic exchange uncollected	1,936,427	1,610,574	325,853	-	-	325,853
	₩ 4,119,811	₩ 1,610,574	₩ 2,509,236	₩ 1,773,713	₩ -	₩ 735,524

	December 31, 2016					
				Non-offsetting amount		
Classification	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets to be set off	Net amounts of financial liabilities presented in the consolidated statement of financial position	Financial instruments	Cash collateral provided	Net amount
Derivatives liabilities	₩ 156,714	₩ -	₩ 156,714	₩ 1,384,587	₩ -	₩ 344,074
Payable spot exchanges	1,571,946	-	1,571,946			
Bonds sold under repurchase agreement	1,006,321	-	1,006,321	1,006,321	-	-
Securities sold	219,182	-	219,182	213,024	6,158	-
Domestic currency exchange payables	1,618,340	1,610,574	7,766	-	-	7,766
	₩ 4,572,503	₩ 1,610,574	₩ 2,961,929	₩ 2,603,932	₩ 6,158	₩ 351,840

2) December 31, 2015 (Unit: Korean won in millions):

Classification	December 31, 2015					
				Non-offsetting amount		
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities to be set off	Net amounts of financial assets presented in the consolidated statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivatives assets	₩ 177,928	₩ -	₩ 177,928	₩ 3,068,520	₩ -	₩ 434,196
Receivable spot exchanges	3,324,788	-	3,324,788			
Bonds purchased under resale agreement	553,300	-	553,300	553,300	-	-
Domestic exchange uncollected	1,892,549	1,565,603	326,946	-	-	326,946
	₩ 5,948,565	₩ 1,565,603	₩ 4,382,962	₩ 3,621,820	₩ -	₩ 761,142

Classification	December 31, 2015					
				Non-offsetting amount		
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets to be set off	Net amounts of financial liabilities presented in the consolidated statement of financial position	Financial instruments	Cash collateral provided	Net amount
Derivatives liabilities	₩ 170,331	₩ -	₩ 170,331	₩ 3,068,520	₩ -	₩ 426,257
Payable spot exchanges	3,324,446	-	3,324,446			
Bonds sold under repurchase agreement	877,606	-	877,606	877,606	-	-
Securities sold	10,513	-	10,513	10,000	-	513
Domestic currency exchange payables	1,576,330	1,565,603	10,727	-	-	10,727
	₩ 5,959,226	₩ 1,565,603	₩ 4,393,623	₩ 3,956,126	₩ -	₩ 437,497

7. CASH AND DUE FROM BANKS:

(1) Cash and due from banks as of December 31, 2016 and 2015, consist of the following (Unit: Korean won in millions):

Account	December 31, 2016	December 31, 2015
Cash and cash equivalents:		
Cash and checks	₩ 524,483	₩ 606,182
Foreign currencies	90,872	81,991
Time deposits	61,531	75,076
Other deposits	14,808	196,920
Deposits in foreign currencies	166,918	183,718
	858,612	1,143,887
Due from banks (*):		
Due from banks in local currency	2,445,597	1,826,797
Due from banks in foreign currencies	109,842	120,576
	2,555,439	1,947,373
	₩ 3,414,051	₩ 3,091,260

(*) The maturity is more than three months.

(2) Due from banks in local currency and foreign currencies as of December 31, 2016 and 2015, consists of the following (Unit: Korean won in millions):

Account		Financial institution	December 31, 2016	December 31, 2015
Due from banks in local currency:	Due from domestic banks	The Bank of Korea (BOK)	₩ 2,243,283	₩ 1,779,252
	Due from the KRX for brokerage	The KRX	-	126
	Others	Woori bank and others	202,314	47,419
			2,445,597	1,826,797
Due from banks in foreign currencies:	Due from domestic banks	The BOK	68,912	72,234
	Offshore due from banks	Bank of China	26,187	38,344
	Others	The People's Bank of China and others	14,743	9,998
			109,842	120,576
			₩ 2,555,439	₩ 1,947,373

(3) Restricted cash and due from banks as of December 31, 2016 and 2015, consist of the following (Unit: Korean won in millions):

Classification	Financial institution	December 31, 2016	December 31, 2015	Reason for restriction
Cash and cash equivalents:				
Other due from banks in local currency	KSFC and KSD (*)	₩ 8,000	₩ 8,000	Deposits from clients
Deposit:				
Due from banks in local currency	The BOK	2,243,282	1,779,252	The BOK Act
	The KRX and others	22,836	49,403	Consignment transaction deposits
	Korea Federation of Savings Banks	95,790	61,901	Reserve deposits and others
Due from banks in foreign currencies	The BOK	68,912	72,233	Reserve deposits
	The People's Bank of China and others	14,747	11,662	Reserve deposits and others
		₩ 2,445,567	₩ 1,974,451	
		₩ 2,453,567	₩ 1,982,451	

(*) Korea Securities Finance Corporation ("KSFC") and Korea Securities Depository ("KSD")

8. <u>FINANCIAL ASSETS AT FVTPL:</u>

Financial assets at FVTPL as of December 31, 2016 and 2015, consist of the following (Unit: Korean won in millions):

	December 31, 2016	December 31, 2015
Financial assets held for trading:		
Equity securities	₩ 13,701	₩ 1,104
Government and public bonds	514,662	130,116
Finance bonds	272,231	231,046
Corporate bonds in Korean won	543,021	343,627
Beneficiary certificates	26,563	28,863
Others held for trading	295,668	266,731
Subtotal	₩ 1,665,846	₩ 1,001,487
Financial assets designated as at FVTPL:		
Debt securities	2,721	9,956
Total	₩ 1,668,567	₩ 1,011,443

9. AFS FINANCIAL ASSETS:

AFS financial assets as of December 31, 2016 and 2015, consist of the following (Unit: Korean won in millions):

Classification		December 31, 2016	December 31, 2015
Equity securities	Marketable equity securities	₩ 3,305	₩ 3,555
	Non-marketable equity securities	407,706	382,079
	Equity investments	55,293	36,156
		466,304	421,790
Debt securities	Government and public bonds	947,293	702,099
	Finance bonds	936,615	684,463
	Debt securities issued by corporations	2,875,300	2,633,725
	Securities pledged as collateral	278,300	341,529
		5,037,508	4,361,816
Beneficiary certificates and others	Beneficiary certificates	511,169	348,207
	Others	124,947	115,902
		636,116	464,109
		₩ 6,139,928	₩ 5,247,715

10. HTM FINANCIAL ASSETS:

The HTM financial assets by type as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification		December 31, 2016	December 31, 2015
Debt securities	Government and public bonds	₩ 2,892,932	₩ 3,181,710
	Finance bonds	418,302	574,145
	Debt securities issued by corporations	2,850,953	3,088,054
	Securities pledged as collateral	39,258	-
		₩ 6,201,445	₩ 6,843,909

11. ASSETS PROVIDED AS COLLATERAL:

The investments of financial assets provided as collateral as of December 31, 2016 and 2015, consist of the following (Unit: Korean won in millions):

		Face value		
Collateral	Provided to	December 31, 2016	December 31, 2015	Reason
Financial assets at FVTPL	The KSD	₩ 438,144	₩ 217,102	Sold under repurchase agreements
	KSFC	219,182	10,000	Lending transaction
	Futures Companies and others	10,026	-	Margin for futures and others
AFS financial assets	The KRX	-	954	Overdraft and settlement agreements
	The BOK	488,707	469,842	Borrowing collateral
	The KSD	102,373	197	Common fund for damages
	BOA and others	23,894	19,519	Collateral for Credit Support Annex
	Nomura Finance Investment and others	111,514	88,675	Sold under repurchase agreements
HTM financial assets	The BOK	1,456	991,359	Borrowing collateral and Overdraft and settlement
	The KRX	1,394,104	-	CCP and settlement agreements
	The KSD	783,412	812,467	Sold under repurchase agreements
	Nomura Finance Investment and others	78,774	110,823	Sold under repurchase agreements

Collateral	Provided to	Face value December 31, 2016	Face value December 31, 2015	Reason
	Futures Companies and others	27,192	68,297	Margin for futures and others
		₩ 3,678,778	₩ 2,789,235	

12. LOANS AND RECEIVABLES:

(1) Loans and receivables as of December 31, 2016 and 2015, consist of the following (Unit: Korean won in millions):

Classification	December 31, 2016	December 31, 2015
Loans:		
Loans in local currency:		
Corporates	₩ 44,776,446	₩ 43,091,327
Household	20,715,725	17,988,660
Public sector and others	1,559,786	1,680,724
Interbank loans	250,043	271,184
Loans in foreign currencies	1,407,758	1,292,986
Call loans	214,766	673,700
Bills bought in local currency	21,870	46,631
Bills bought in foreign currencies	328,401	357,432
Advances for customers	6,653	3,711
Credit card accounts	867,751	783,394
Bonds purchased under resale agreement	412,900	553,300
Privately placed bonds	37,881	222,028
Finance lease receivables	428,643	530,647
Installment financing receivables	890,133	778,150
	71,918,756	68,273,874
Allowance for loan losses (*1)	(670,569)	(705,206)
Deferred loan origination fees	(33,191)	(36,302)
Deferred loan origination costs	159,060	153,007
	₩ 71,374,056	₩ 67,685,373
Receivables:		
Suspense payments	₩ 2,123	₩ 1,985
Accounts receivable	1,659,406	3,262,905
Domestic exchange settlement debits	325,853	326,946
Guarantee deposits paid	332,629	325,644
Accrued income	403,444	471,320
Deposited money	1,322	1,592
Bills unsettled	1,915	510
Other	522	106
	2,727,214	4,391,008
Allowance for loan losses	(4,895)	(8,354)
Present-value discounts (leasehold deposits)	(9,365)	(10,033)
	₩ 2,712,954	₩ 4,372,621

(*1) Present-value discounts of ₩6,103 million and ₩2,641 million are included as of December 31, 2016 and 2015, respectively.

(2) The changes in deferred loan origination fees and costs for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	2016			
	Beginning balance	Increase	Decrease	Ending balance
Deferred loan origination fees	₩ (36,302)	₩ (18,516)	₩ 21,627	₩ (33,191)
Deferred loan origination costs	153,007	129,028	(122,975)	159,060
	₩ 116,705	₩ 110,512	₩ (101,348)	₩ 125,869

	2015			
	Beginning balance	Increase	Decrease	Ending balance
Deferred loan origination fees	₩ (25,902)	₩ (31,080)	₩ 20,680	₩ (36,302)
Deferred loan origination costs	145,724	124,764	(117,481)	153,007
	₩ 119,822	₩ 93,684	₩ (96,801)	₩ 116,705

13. ALLOWANCE FOR LOAN LOSSES:

(1) The changes in allowance for loan losses (excluding present-value discounts) for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	December 31, 2016				
Classification	Loans in local currency	Loans in foreign currencies	Credit card	Others	Total
Beginning balance	₩ 617,571	₩ 29,647	₩ 24,265	₩ 42,077	₩ 713,560
Loans written off	(319,373)	(58,217)	(27,120)	(71,859)	(476,569)
Loan sales	(70,512)	(226)	(228)	(5,944)	(76,910)
Collection of previously written-off loans	85,834	1,783	7,343	8,272	103,232
Changes in exchange rates	-	194	-	-	194
Other	(10,530)	(1,020)	(1)	4,922	(6,629)
	302,990	(27,839)	4,259	(22,532)	256,878
Provision of allowance for loan losses	288,287	45,751	28,652	55,896	418,586
Ending balance	₩ 591,277	₩ 17,912	₩ 32,911	₩ 33,364	₩ 675,464

	December 31, 2015				
Classification	Loans in local currency	Loans in foreign currencies	Credit card	Others	Total
Beginning balance	₩ 580,544	₩ 17,054	₩ 21,466	₩ 54,459	₩ 673,523
Loans written off	(292,005)	(6,946)	(20,994)	(29,105)	(349,050)
Loan sales	(64,902)	(243)	(318)	(113)	(65,576)
Collection of previously written-off loans	100,986	1,992	7,052	12,896	122,926
Changes in exchange rates	-	256	-	-	256
Other	(76,607)	(28)	(24)	(24,507)	(101,166)
	248,016	12,085	7,182	13,630	280,913
Provision of allowance for loan losses	369,555	17,562	17,083	28,447	432,647
Ending balance	₩ 617,571	₩ 29,647	₩ 24,265	₩ 42,077	₩ 713,560

(2) The percentage of provision for allowance for loan losses as of December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Classification	December 31, 2016		December 31, 2015	
Loans and receivables	₩	74,645,970	₩	72,664,882
Allowance for loan losses		675,464		713,560
Percentage of allowance (%)		0.90%		0.98%

14. LEASE RECEIVABLES:

(1) Lease receivables as of December 31, 2016 and 2015, consist of the following (Unit: Korean won in millions):

Classification	December 31, 2016		December 31, 2015	
Lease receivables	₩	428,643	₩	530,647
Allowance for loan losses		(12,434)		(9,910)
Deferred origination fees		(727)		(467)
Deferred origination costs		1,666		3,295
	₩	417,148	₩	523,565

(2) The total investment of finance leases and present value of minimum lease payments as of December 31, 2016 and 2015, consist of the following (Unit: Korean won in millions):

	December 31, 2016				December 31, 2015			
	Total investment of finance leases		Present value of minimum lease payments		Total investment of finance leases		Present value of minimum lease payments	
One year or less	₩	223,538	₩	211,404	₩	269,625	₩	252,598
1–5 years		231,210		217,239		299,361		278,049
	₩	454,748	₩	428,643	₩	568,986	₩	530,647

(3) The difference between net investment in finance leases and total investment as of December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Classification		December 31, 2016		December 31, 2015	
Total investment of leases		₩	454,748	₩	568,986
Net investment in finance leases	Present value of minimum lease payments		428,643		530,647
Unrealized interest		₩	26,105	₩	38,339

15. LEASE ASSETS:

(1) Lease assets as of December 31, 2016 and 2015, consist of the following (Unit: Korean won in millions):

Classification	December 31, 2016		December 31, 2015	
Operating lease assets:				
Operating lease assets	₩	532,255	₩	439,379
Accumulated depreciation		(173,224)		(123,159)
Accumulated impairment losses		(5,241)		-
Book value		353,790		316,220
Terminated lease assets:				
Terminated lease assets		30,061		54,799
Accumulated depreciation on cancellable lease assets		(3,005)		(5,888)
Accumulated impairment losses of terminated lease assets		(23,623)		(24,490)
Book value		3,433		24,421
Initial direct costs		15,884		15,644
Prepaid lease assets		8,792		4,742
Total	₩	381,899	₩	361,027

(2) Operating lease assets

a. Lessee of operating lease assets by industry based on the acquisition cost as of December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Classification	December 31, 2016 Acquisition cost	December 31, 2016 Accumulated depreciation	December 31, 2016 Book value	December 31, 2015 Acquisition cost	December 31, 2015 Accumulated depreciation	December 31, 2015 Book value
Transport equipment	₩ 393,159	₩ (114,499)	₩ 278,660	₩ 268,861	₩ (88,092)	₩ 180,769
General industrial equipment	169,157	(61,730)	107,427	225,317	(40,954)	184,363
	₩ 562,316	₩ (176,229)	₩ 386,087	₩ 494,178	₩ (129,046)	₩ 365,132

b. The sum of the future minimum lease payments by term structures-related operating lease as of December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

	December 31, 2016	December 31, 2015
One year or less	₩ 147,711	₩ 132,751
1–5 years	281,137	247,198
	₩ 428,848	₩ 379,949

16. DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING:

(1) The notional amounts outstanding for derivative contracts as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Type	December 31, 2016 Trading	December 31, 2016 Hedging	December 31, 2016 Total	December 31, 2015 Trading	December 31, 2015 Hedging	December 31, 2015 Total
Currency:						
Currency forwards (*1)	₩ 6,818,658	₩ -	₩ 6,818,658	₩ 5,879,330	₩ -	₩ 5,879,330
Long currency swaps	173,782	-	173,782	538,762	-	538,762
Short currency swaps	168,616	-	168,616	533,019	-	533,019
Long currency futures (*2)	280,855	-	280,855	14,416	-	14,416
Short currency futures (*2)	43,506	-	43,506	286,613	-	286,613
Long currency options	617,919	-	617,919	907,891	-	907,891
Short currency options	617,919	-	617,919	907,891	-	907,891
	8,721,255	-	8,721,255	9,067,922	-	9,067,922
Interest rate:						
Long interest rate swaps (*1)	47,600	402,125	449,725	30,000	-	30,000
Short interest rate swaps (*1)	155,756	-	155,756	32,151	-	32,151
Long interest rate futures	-	-	-	1,262	-	1,262
Short interest rate futures	130,726	-	130,726	62,641	-	62,641
	334,082	402,125	736,207	126,054	-	126,054
Stock:						
Stock futures purchased	1,557	-	1,557	-	-	-
Stock futures sold	-	-	-	2,890	-	2,890
Stock options purchased	169,342	-	169,342	5,473	-	5,473
Stock options sold	598,283	-	598,283	629	-	629
	769,182	-	769,182	8,992	-	8,992
	₩ 9,824,519	₩402,125	₩ 10,226,644	₩ 9,202,968	₩ -	₩ 9,202,968

(*1) For transactions between local currency and foreign currencies, unsettled amount of transaction is presented using the basic foreign exchange rate on the contract amount in foreign currencies. For transactions between foreign currencies and foreign currencies, unsettled amount is presented using the basic foreign exchange rate on the contract amount in foreign currencies purchased.

(*2) Daily settlement of futures transactions is reflected in due from banks.

(2) The valuation of derivatives for trading as of December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Type	December 31, 2016			
	Gain	Loss	Assets	Liabilities
Currency:				
Currency forwards	₩ 139,517	₩ 108,277	₩ 124,271	₩ 97,418
Currency swaps	2,065	1,990	23,869	23,615
Currency options	3,212	2,472	7,857	7,901
	144,794	112,739	155,997	128,934
Interest rate:				
Interest rate swaps	308	-	448	-
Stock:				
Stock options	115	1,280	632	106
Deferred gain on valuation of derivatives	-	2	12	-
	115	1,282	644	106
	₩ 145,217	₩ 114,021	₩ 157,089	₩ 129,040

Type	December 31, 2015			
	Gain	Loss	Assets	Liabilities
Currency:				
Currency forwards	₩ 90,656	₩ 82,638	₩ 92,599	₩ 84,295
Currency swaps	29,995	30,793	71,435	71,930
Currency options	9,460	8,409	13,560	13,647
	130,111	121,840	177,594	169,872
Interest rate:				
Interest rate swaps	753	85	187	327
Stock:				
Stock options	18	9	133	132
Deferred gain on valuation of derivatives	-	2	14	-
	18	11	147	132
	₩ 130,882	₩ 121,936	₩ 177,928	₩ 170,331

(3) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Hedge accounting is discontinued when the Consolidated Entity revokes the hedging relationship; when the hedging instrument expires or is sold, terminated or exercised; or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

The interest rate swap, the currency swap, the currency forwards and others offset changes in the fair value of the hedged items resulting from the fluctuation in interest and exchange rate. Hedged items for fair value hedge accounting purposes are subordinated bonds in Korean won, structured bonds and finance debentures issued in foreign currencies.

1) The valuation of derivatives designated as a hedging instrument as of December 31, 2016, is as follows, and there is no such derivative as of December 31, 2015 (Unit: Korean won in millions):

Type	December 31, 2016			
	Gain	Loss	Assets	Liabilities
Interest rate:				
Interest rate swaps	₩ 114	₩ 27,674	₩ 114	₩ 27,674

2) Gain (loss) on valuation of hedged items and hedging instrument for the years ended December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Type	December 31, 2016	December 31, 2015
Loss on valuation of hedging instrument	₩ (27,561)	₩ -
Gain on valuation of hedged items	27,538	-
	₩ (23)	₩ -

17. INVESTMENTS IN ASSOCIATES:

(1) Particulars of investment in affiliated companies as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	December 31, 2016					
	Industry	Registered office and principal place of business	Closing month	Owner -ship (%)	Historical cost	Book value
Investments in associates:						
Consus Clean Water Private Special Asset Fund-1	Financial Investment	The Republic of Korea	Dec	50.00	₩ 9,157	₩ 9,233
BNK 'Strong' Dividend Securities Investment Trust-1	Financial Investment	The Republic of Korea	Dec	48.06	10,000	10,290
BNK 'Strong' Korea Securities Investment Trust-1	Financial Investment	The Republic of Korea	Dec	47.09	7,000	6,982
Tongyang HighPlus government and public bonds 1	Financial Investment	The Republic of Korea	Dec	-	-	-
Investments in joint ventures:						
Dongwha Capital (*)	Specialized credit financial business	The Republic of Korea	Dec	30.00	6,000	5,846
Total					₩ 32,157	₩ 32,351

(*) All of the joint arrangements, which the Consolidated Entity holds joint control of that arrangements, were structured through other entities. However, there are no contractual terms and/or conditions stating that the parties have rights to the assets and obligations for the liabilities relating to the arrangements. Since the parties having joint control of the arrangements believe that they have rights to the net assets of the joint arrangements, such parties are classified as joint ventures. Additionally, the net assets of the joint ventures are incorporated in the Consolidated Entity's financial statements using the equity method of accounting.

	December 31, 2015					
	Industry	Registered office and principal place of business	Closing month	Owner -ship (%)	Historical cost	Book value
Investments in associates:						
Consus Clean Water Private Special Asset Fund-1	Financial Investment	The Republic of Korea	Dec	50.00	₩ 4,852	₩ 4,883
Investments in joint ventures:						
Tongyang HighPlus government and public bonds 1	Financial Investment	The Republic of Korea	Dec	34.77	30,000	30,068
Total					₩ 34,852	₩ 34,951

(2) Changes to investment in affiliated companies as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

December 31, 2016

	Beginning balance	Acquisition/ disposal	Equity-method profit and loss	Dividends received	Others	Ending balance
Investments in associates:						
Consus Clean Water Private Special Asset Fund-1	₩ 4,883	₩ 4,305	₩ 263	₩ (218)	₩ -	₩ 9,233
BNK 'Strong' Dividend Securities Investment Trust-1	-	10,000	402	-	(112)	10,290
BNK 'Strong' Korea Securities Investment Trust-1	-	7,000	-	-	(18)	6,982
Tongyang HighPlus government and public bonds 1	30,068	(30,620)	-	-	552	-
Investments in joint ventures:						
Dongwha Capital	-	6,000	(67)	-	(87)	5,846
	₩ 34,951	₩ (3,315)	₩ 598	₩ (218)	₩ 335	₩ 32,351

December 31, 2015

	Beginning balance	Acquisition/ disposal	Equity-method profit and loss	Dividends received	Others	Ending balance
Tongyang HighPlus government and public bonds 1	₩ -	₩ 30,000	₩ 537	₩ (469)	₩ -	₩ 30,068
Consus Clean Water Private Special Asset Fund-1	-	2,295	139	(107)	2,556	4,883
	₩ -	₩ 32,295	₩ 676	₩ (576)	₩ 2,556	₩ 34,951

(3) Financial information of affiliated companies at the end of the current reporting period is outlined as follows (Unit: Korean won in millions):

December 31, 2016

	Current assets	Current liabilities	Stockholders' equity	Operating income	Income from continuing operations	Total comprehensive income
Investments in associates:						
Consus Clean Water Private Special Asset Fund-1	₩ 18,483	₩ 17	₩ 18,466	₩ 220	₩ 203	₩ 203
BNK 'Strong' Dividend Securities Investment Trust-1	21,506	95	21,411	1,088	902	902
BNK 'Strong' Korea Securities Investment Trust-1	15,271	443	14,828	1,223	717	717
Investments in joint ventures:						
Dongwha Capital	20,357	871	19,486	41	(225)	(225)

December 31, 2015

	Current assets	Current liabilities	Stockholders' equity	Operating income	Income from continuing operations	Total comprehensive income
Consus Clean Water Private Special Asset Fund-1	₩ 9,776	₩ 8	₩ 9,768	₩ 110	₩ 101	₩ 101
Tongyang HighPlus government and public bonds 1	86,471	-	86,471	250	195	195

(4) Book value adjustments for ownership in the affiliated companies from net assets to net assets owned at the end of current reporting period are as follows:

December 31, 2016

	Net asset of affiliated company(A)	The consolidated entity's ownership (B)	Net assets owned (AXB)	Book value at the end of the reporting period
Investments in associates:				
Consus Clean Water Private Special Asset Fund-1	₩ 18,466	50.00%	₩ 9,233	₩ 9,233
BNK 'Strong' Dividend Securities Investment Trust-1	21,411	48.06%	10,290	10,290
BNK 'Strong' Korea Securities Investment Trust-1	14,828	47.09%	6,982	6,982
Investments in joint ventures:				
Dongwha Capital (*)	19,486	30.00%	5,846	5,846

December 31, 2015

	Net asset of affiliated company(A)	The consolidated entity's ownership (B)	Net assets owned (AXB)	Book value at the end of the reporting period
Consus Clean Water Private Special Asset Fund-1	₩ 9,768	50.00%	₩ 4,843	₩ 4,843
Tongyang HighPlus government and public bonds 1	86,471	34.77%	30,068	30,068

(5) There is no current-year or cumulative equity-method loss arising from associates and joint ventures, which is not recognized due to discontinuation of the use of the equity method.

18. TANGIBLE ASSETS AND INVESTMENT PROPERTY:

(1) Tangible assets as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	December 31, 2016			
Account	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Land	₩ 281,417	₩ -	₩ -	₩ 281,417
Buildings	409,066	58,078	-	350,988
Leasehold improvements	107,458	78,372	-	29,086
Equipment and vehicles	420,975	313,681	-	107,294
Construction in progress	32,260	-	-	32,260
	₩ 1,251,176	₩ 450,131	₩ -	₩ 801,045

	December 31, 2015			
Account	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Land	₩ 282,855	₩ -	₩ -	₩ 282,855
Buildings	397,724	49,312	-	348,412
Leasehold improvements	101,612	73,532	-	28,080
Equipment and vehicles	410,953	297,209	-	113,744
Construction in progress	22,838	-	-	22,838
	₩ 1,215,982	₩ 420,053	₩ -	₩ 795,929

(2) The changes in book value of tangible assets for the year ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Account	December 31, 2016 Beginning balance	Acquisition	Disposal	Reclassification	Depreciation	Others	Ending Balance
Land	₩282,855	₩ -	₩ (50)	₩ (1,388)	₩ -	₩ -	₩ 281,417
Buildings	348,412	3,533	(57)	3,469	(4,369)	-	350,988
Leasehold improvements	28,080	7,031	(881)	6,088	(11,260)	28	29,086
Equipment and vehicles	113,744	26,611	(47)	14,401	(47,433)	18	107,294
Construction in progress	22,838	66,929	-	(57,511)	-	4	32,260
	₩795,929	₩ 104,104	₩ (1,035)	₩ (34,941)	₩ (63,062)	₩ 50	₩ 801,045

Account	December 31, 2015 Beginning balance	Effect of business combination	Acquisition	Disposal	Reclassification	Depreciation	Others	Ending balance
Land	₩276,580	₩ -	₩ 6,176	₩ (197)	₩ 296	₩ -	₩ -	₩ 282,855
Buildings	337,095	-	11,212	(561)	9,047	(8,381)	-	348,412
Leasehold improvements	29,484	11	5,992	(1,038)	4,450	(10,814)	(5)	28,080
Equipment and vehicles	116,024	103	38,950	(345)	2,361	(43,778)	429	113,744
Construction in progress	8,035	-	43,068	(125)	(28,076)	-	(64)	22,838
Others	26,172	-	-	-	(26,172)	-	-	-
	₩793,390	₩ 114	₩ 105,398	₩ (2,266)	₩ (38,094)	₩ (62,973)	₩ 360	₩ 795,929

(3) Investment property

1) Investment property as of December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Classification	December 31, 2016 Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Land	₩ 94,846	₩ -	₩ -	₩ 94,846
Buildings	54,121	11,152	-	42,969
	₩ 148,967	₩ 11,152	₩ -	₩ 137,815

Classification	December 31, 2015 Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Book value
Land	₩ 91,341	₩ -	₩ -	₩ 91,341
Buildings	51,401	10,332	-	41,069
	₩ 142,742	₩ 10,332	₩ -	₩ 132,410

Rent revenues from investment properties are ₩1,596 million and ₩1,535 million for the years ended December 31, 2016 and 2015, respectively. Routine maintenance and repairs are not incurred.

2) The fair value and assessment method of investment property as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification	Fair Value December 31, 2016	Fair Value December 31, 2015	Valuation techniques	Input variables
Land	₩ 113,869	₩ 104,094	- The evaluation method of using officially assessed land pricing - Sales comparison approach.	- Officially assessed land pricing - Sales comparables
Buildings	45,181	37,370	- Evaluation by the prime cost	- Repurchase cost - Durable years
	₩ 159,050	₩ 141,464		

Investment properties are classified as Level 3 and measured by independent professionals who have specialty and similar experience in the area of investment properties located recently.

(4) The changes in book value of investment property for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Account	December 31, 2016						
	Beginning balance	Acquisition	Disposal	Reclassification (*)	Depreciation	Impairment loss	Ending Balance
Land	₩ 91,341	₩ -	₩ -	₩ 3,505	₩ -	₩ -	₩ 94,846
Buildings	41,069	-	-	2,943	(1,043)	-	42,969
	₩ 132,410	₩ -	₩ -	6,448	₩ (1,043)	₩ -	₩ 137,815

Account	December 31, 2015						
	Beginning balance	Acquisition	Disposal	Reclassification (*)	Depreciation	Impairment loss	Ending Balance
Land	₩ 92,903	₩ -	₩ -	₩ (1,562)	₩ -	₩ -	₩ 91,341
Buildings	40,606	-	-	1,525	(1,062)	-	41,069
	₩ 133,509	₩ -	₩ -	₩ (37)	₩ (1,062)	₩ -	₩ 132,410

(*) Reclassifications as of December 31, 2016 and 2015, are due to change in lease ratio for investment in real properties.

19. INTANGIBLE ASSETS:

(1) Intangible assets as of December 31, 2016 and 2015, consisted of the following (Unit: Korean won in millions):

Classification	December 31, 2016			
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Book value
Software	₩ 173,734	₩ 112,112	₩ -	₩ 61,622
Right of using donated asset	48,082	-	22,057	26,025
Core deposits	156,558	21,073	1,891	133,594
Others	183,065	78,155	1,212	103,698
	₩ 561,439	₩ 211,340	₩ 25,160	₩ 324,939

Classification	December 31, 2015			
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Book value
Software	₩ 153,477	₩ 83,022	₩ -	₩ 70,455
Right of using donated asset	48,081	-	4,575	43,506
Core deposits	156,558	3,555	1,891	151,112
Others	158,570	54,829	1,212	102,529
	₩ 516,686	₩ 141,406	₩ 7,678	₩ 367,602

(2) The changes in intangible assets for the years ended December 31, 2016 and 2015, were as follows (Unit: Korean won in millions):

	December 31, 2016							
Classification	Beginning balance	Acquisition	Disposal	Reclassification (*)	Amortization	Impairment loss	Others	Ending balance
Software	₩70,455	₩11,370	₩ -	₩ 11,265	₩ (31,471)	₩ -	₩ 3	₩ 61,622
Right of using donated asset	43,506	-	-	-	-	(17,481)	-	26,025
Core deposits	151,112	-	-	-	(17,518)	-	-	133,594
Others	102,529	9,529	(421)	18,314	(26,253)	(499)	499	103,698
	₩367,602	₩20,899	₩ (421)	₩ 29,579	₩ (75,242)	₩ (17,980)	₩ 502	₩324,939

(*) Transferred from construction in progress.

	December 31, 2015								
Classification	Beginning balance	Effect of business combination	Acquisition	Disposal	Reclassification (*)	Amortization	Impairment loss	Others	Ending balance
Software	₩ 84,765	₩ -	₩ 13,351	₩ -	₩ 3,693	₩ (29,137)	₩ -	₩(2,217)	₩ 70,455
Right of using donated asset	40,252	3,254	-	-	-	-	-	-	43,506
Core deposits	168,629	-	-	-	-	(17,517)	-	-	151,112
Others	118,573	197	3,654	(1,209)	3,354	(24,952)	(118)	3,030	102,529
	₩412,219	₩ 3,451	₩ 17,005	₩(1,209)	₩ 7,047	₩ (71,606)	₩ (118)	₩ 813	₩367,602

(*) Transferred from construction in progress.

20. OTHER ASSETS:

Other assets as December 31, 2016 and 2015, consisted of the following (Unit: Korean won in millions):

Classification	December 31, 2016	December 31, 2015
Guarantee deposits	₩ 1,629	₩ 928
Articles for consumption	1,197	1,354
Prepaid expenses	26,391	20,142
Operating lease assets	373,107	356,286
Prepaid lease assets	8,792	4,742
Others	79,115	89,774
	490,231	₩ 473,226

21. DEPOSITS:

Deposits as of December 31, 2016 and 2015, consisted of the following (Unit: Korean won in millions):

Account	December 31, 2016	December 31, 2015
Deposits in Korean won:		
Demand deposits	₩ 8,577,881	₩ 6,597,603
Term deposits	56,987,017	56,156,334
Mutual installment deposits	7,577	12,979
Mutual installment for housing	20,652	21,286
Others	193	442
	65,593,320	62,788,644
Deposits in foreign currencies	932,469	845,424
Negotiable certificates of deposit	1,078,602	727,383
	₩ 67,604,391	₩ 64,361,451

22. BORROWINGS:

(1) Borrowings as of December 31, 2016 and 2015, consisted of the following (Unit: Korean won in millions):

Account	Annual interest rate (%)	December 31, 2016	December 31, 2015
Borrowings in Korean won:			
The BOK	0.50–0.75	₩ 1,011,749	₩ 970,744
Others	0.00–3.36	2,969,227	3,067,531
		3,980,976	4,038,275
Borrowings in foreign currencies			
Overdraft on our account	4.00–5.00	19,465	12,510
Banks	0.26–0.36	297,215	392,316
Relending loans	1.22–1.50	90,178	72,336
Others	0.51–1.16	441,693	463,462
		848,551	940,624
Call money	1.36	240,000	110,000
Bonds sold under repurchase agreement			
Korean won	0.45–2.70	958,627	811,509
Foreign currencies	1.10	47,694	66,097
		1,006,321	877,606
Bills sold	0.45–1.14	37,953	49,010
Securities sold	-	219,182	10,513
Deferred expenses from borrowings	-	(275)	(186)
		₩ 6,332,708	₩ 6,025,842

(2) Borrowings from financial institutions as of December 31, 2016 and 2015, were as follows (Unit: Korean won in millions):

Classification	December 31, 2016			
	The BOK	Other banks	Others	Total
Borrowings in Korean won	₩ 1,011,749	₩ 1,460,171	₩ 95,000	₩ 2,566,920
Borrowings in foreign currencies	-	758,373	90,178	848,551
Call money	-	180,000	60,000	240,000
Bonds sold under repurchase agreement	-	-	550,437	550,437
	₩ 1,011,749	₩ 2,398,544	₩ 795,615	₩ 4,205,908

Classification	December 31, 2015			
	The BOK	Other banks	Others	Total
Borrowings in Korean won	₩ 970,744	₩ 1,668,887	₩ 50,000	₩ 2,689,631
Borrowings in foreign currencies	-	861,693	72,336	934,029
Call money	-	-	110,000	110,000
Bonds sold under repurchase agreement	-	460,000	103,797	563,797
	₩ 970,744	₩ 2,990,580	₩ 336,133	₩ 4,297,457

23. DEBENTURES:

Debentures issued by the Consolidated Entity as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification	Annual interest rate (%)	Amount			
		December 31, 2016		December 31, 2015	
Debentures in Korean won:					
Unsecured coupon bond	1.36–5.20	₩	5,356,522	₩	5,120,000
Subordinated bond	3.05–5.10		2,590,000		2,495,727
Present value discounts			(7,319)		(7,070)
			7,939,203		7,608,657
Debentures in foreign currencies:					
Senior bond	0.65–4.13		569,912		546,002
Subordinated bond	3.63		275,901		-
Present value discounts			(3,418)		(1,837)
			842,395		544,165
		₩	8,781,598	₩	8,152,822

24. NET DEFINED BENEFIT LIABILITIES:

(1) Defined benefit plan

The Consolidated Entity operates a retirement benefit plan, which is an arrangement whereby an entity provides benefits as a lump sum, based on current salary and tenure of employment provided to employees on or after termination of their service. The retirement benefit plan is normally described as a defined benefit plan and its own characteristics are as follows:

- The obligation of the Consolidated Entity is to pay existing and previous employees promised retirement benefits.
- The Consolidated Entity will have the actuarial risk due to the fact that actual retirement benefits exceed expected retirement benefits and investment risk.

The defined benefit obligation recognized in the consolidated financial statements is measured by an independent actuary. The Consolidated Entity uses the projected unit credit method in order to determine defined benefit obligation.

Actuarial assumptions and variables, such as market rate risk, wage rate risk, death rate risk, consumer price index, expected rate of return and others, are based on market information and historical data and are renewed annually.

Profit or loss incurred from the change in actuarial assumptions and the difference between assumptions and actual results are recognized for the period.

(2) As of December 31, 2016 and 2015, the amounts recognized in the consolidated statements of financial position related to retirement benefit obligation are as follows (Unit: Korean won in millions):

Classification	December 31, 2016		December 31, 2015	
Present value of defined benefit obligation	₩	390,607	₩	356,021
Fair value of plan assets		(383,069)		(333,009)
Retirement benefit obligation	₩	7,538	₩	23,012

(3) Changes in net defined benefit liabilities (assets) for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	December 31, 2016		
Classification	Defined benefit obligation	Plan assets	Total
Beginning balance	₩ 356,021	₩ (333,009)	₩ 23,012
Current service cost	51,711	-	51,711
Interest expenses (interest revenues)	11,613	(11,097)	516
Past service cost, and gains and losses on curtailments and settlements	602	-	602
	419,947	(344,106)	75,841
Remeasurement elements:			
Expected return on plan assets	-	7,387	7,387
Actuarial gains and losses arising from changes in demographic assumptions	(1,085)	29	(1,056)
Actuarial gains and losses arising from changes in financial assumptions	(2,273)	-	(2,273)
Changes in limiting net defined benefit assets with asset ceiling	-	-	-
Others	(3,373)	(1,201)	(4,574)
	(6,731)	6,215	(516)
Contributions from the employer	679	(66,251)	(65,572)
Benefits paid	(24,353)	20,937	(3,416)
Effort of business combination and business disposal	1,065	136	1,201
Ending balance	₩ 390,607	₩ (383,069)	₩ 7,538

	December 31, 2015		
Classification	Defined benefit obligation	Plan assets	Total
Beginning balance	₩ 296,079	₩ (235,649)	₩ 60,430
Current service cost	47,147	(446)	46,701
Interest expenses (interest revenues)	11,445	(8,683)	2,762
Past service cost, and gains and losses on curtailments and settlements	-	-	-
	354,671	(244,778)	109,893
Remeasurement elements:			
Expected return on plan assets	-	2,999	2,999
Actuarial gains and losses arising from changes in demographic assumptions	563	26	589
Actuarial gains and losses arising from changes in financial assumptions	4,895	-	4,895
Changes in limiting net defined benefit assets with asset ceiling	7,786	-	7,786
	13,244	3,025	16,269
Contributions from the employer	-	(101,754)	(101,754)
Benefits paid	(11,582)	10,497	(1,085)
Effort of business combination and business disposal	(312)	1	(311)
Ending balance	₩ 356,021	₩ (333,009)	₩ 23,012

(4) Details of fair values of plan assets as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification	December 31, 2016			December 31, 2015		
	Amount		Ratio (%)	Amount		Ratio (%)
Time deposits	₩	380,373	99.30	₩	332,055	99.71
Others		2,696	0.70		954	0.29
	₩	383,069	100.00	₩	333,009	100.00

(5) Actuarial assumptions as of December 31, 2016 and 2015, are as follows:

Classification	December 31, 2016	December 31, 2015
Discount rate (%)	2.18–3.50	2.87–3.50
Expected rate of salary increase (%)	1.90–5.97	2.00–4.84

(6) Assuming that all the other assumptions remain as they are at the end of the reporting period, the effect of any changes in significant actuarial assumptions, which were made within the reasonable limit on retirement benefit obligations, is as follows:

Description	1% increase		1% decrease	
Change in discount rate	₩	(38,519)	₩	46,026
Change in future salary increase rate		46,143		(39,306)

25. **PROVISIONS:**

(1) Provisions as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification	December 31, 2016		December 31, 2015	
Allowance for losses on acceptances and guarantees	₩	9,812	₩	16,843
Allowance for losses on unused credit limit		22,640		19,839
Allowance for other liabilities		75,980		112,327
	₩	108,432	₩	149,009

(2) Allowance for losses on acceptances and guarantees (including bills endorsed) as of December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Classification	December 31, 2016			December 31, 2015		
	Acceptances and guarantees	Allowance	Allowance rate (%)	Acceptances and guarantees	Allowance	Allowance rate (%)
Confirmed acceptances and guarantees	₩ 1,013,037	₩ 9,091	0.90	₩ 1,178,408	₩ 15,856	1.35
Unconfirmed acceptances and guarantees	341,557	708	0.21	444,894	984	0.22
Endorsed bill	1,829	13	0.71	811	3	0.37
	₩ 1,356,423	₩ 9,812	0.72	₩ 1,624,113	₩ 16,843	1.04

(3) Allowance for losses on unused credit limit as of December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Classification	December 31, 2016			December 31, 2015		
	Unused credit limit	Allowance	Allowance rate (%)	Unused credit limit	Allowance	Allowance rate (%)
Enterprise	₩ 6,269,823	₩ 8,968	0.14	₩ 7,914,854	₩ 10,860	0.14
Household	1,095,132	400	0.04	1,060,450	345	0.03
Credit card	3,827,769	₩ 13,272	0.35	3,346,865	8,634	0.26
	₩ 11,192,724	₩ 22,640	0.20	₩ 12,322,169	₩ 19,839	0.16

(4) The changes in allowance for losses on acceptances and guarantees and allowance for losses on unused credit limit for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification	December 31, 2016				December 31, 2015			
	Allowance for acceptances and guarantees		Allowance for unused credit limit		Allowance for acceptances and guarantees		Allowance for unused credit limit	
Beginning balance	₩	16,843	₩	19,839	₩	11,530	₩	22,054
Foreign currency translation and others		114		-		(12)		(665)
Provision		(7,145)		2,801		5,325		(1,550)
Ending balance		9,812	₩	22,640	₩	16,843	₩	19,839

(5) Allowance for other liabilities as of and December 31, 2016 and 2015, consisted of the following (Unit: Korean won in millions):

Classification	December 31, 2016		December 31, 2015	
Allowance for restoration costs	₩	6,312	₩	5,921
Allowance for credit card point		1,865		1,719
Allowance for dormant deposit		4,801		4,699
Allowance for litigation		61,568		98,158
Others		1,434		1,830
	₩	75,980	₩	112,327

(6) The changes in allowance for other liabilities for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification	December 31, 2016									
	Beginning balance		Increase		Decrease		Others		Ending balance	
Allowance for restoration costs	₩	5,921	₩	431	₩	(114)	₩	74	₩	6,312
Allowance for credit card point		1,719		146		-		-		1,865
Allowance for dormant deposit		4,699		102		-		-		4,801
Allowance for litigation		98,158		-		(36,590)		-		61,568
Others		1,830		1,035		(1,431)		-		1,434
	₩	112,327	₩	1,714	₩	(38,135)	₩	74	₩	75,980

Classification	December 31, 2015											
	Beginning balance		Effect of business combination		Increase		Decrease		Others		Ending balance	
Allowance for restoration costs	₩	5,971	₩	48	₩	538	₩	(401)	₩	(235)	₩	5,921
Allowance for credit card point		1,877		-		76		(234)		-		1,719
Allowance for dormant deposit		4,382		-		317		-		-		4,699
Allowance for litigation		133,306		-		61		(35,209)		-		98,158
Others		16,581		-		1,405		(7,833)		(8,323)		1,830
	₩	162,117	₩	48	₩	2,397	₩	(43,677)	₩	(8,558)	₩	112,327

Allowances for restoration costs are present value of expected amount of the outflow of resources embodying economic benefits required to settle the obligation, at appropriate discount rate. Allowance for restoration costs will be incurred when lease period is terminated. Average lease period within three years is used for reasonable assumption, and average actual restoration costs within 10 years and average inflation rates within three years are used as reasonable assumptions.

26. OTHER LIABILITIES:

Other liabilities as of December 31, 2016 and 2015, consisted of the following (Unit: Korean won in millions):

Classification	December 31, 2016	December 31, 2015
Other financial liabilities:		
Due to trust accounts	₩ 458,097	₩ 397,480
Due to fund accounts	426	181
Foreign exchange remittances pending	32,619	36,109
Prepaid card liabilities	12,797	13,297
Debit card liabilities	14,068	14,574
Deposits for letter of guarantees and others	230,307	256,553
Present-value discounts	(8,778)	(11,665)
Accounts payable	1,722,730	3,354,251
Accrued expenses	552,402	595,291
Financial guarantee contract liabilities	3,021	3,215
Agency business accounts	97,786	156,715
Unsettled domestic exchange liabilities	7,766	10,727
Deposits held by agency relationship	79,770	121,942
Guarantee deposits for securities subscription	5,739	17,841
	3,208,750	4,966,511
Other non-financial liabilities:		
Withholding taxes	16,020	20,476
Unearned revenues	33,826	36,783
Others	25,319	43,088
	75,165	100,347
	₩ 3,283,915	₩ 5,066,858

27. SHAREHOLDERS' EQUITY:

(1) Common stock

As of December 31, 2016, the Consolidated Entity has 700 million common shares authorized with a par value per share of ₩5,000, and 325,935,246 shares have been issued. The Consolidated Entity's common stock as of December 31, 2016, amounts to ₩1,629,676 million.

(2) Other paid-up capital

As of December 31, 2016 and 2015, other paid-up capital is summarized as follows (Unit: Korean won in millions):

Classification	December 31, 2016	December 31, 2015
Paid-up capital in excess of par value	₩ 678,968	₩ 561,734
Other capital surplus	105,343	105,584
Treasury stock	(213)	(213)
Gain on disposal of treasury stock	5,826	5,826
Loss on disposal of treasury stock	(122)	(122)
	₩ 789,802	₩ 672,809

(3) As of December 31, 2016 and 2015, hybrid equity securities classified as equity are as follows (Unit: Korean won in millions):

	Issue date	Maturity	Interest rate (%)	December 31, 2016	December 31, 2015
Local currency	2015.06.24	2045.06.24	4.60	₩ 80,000	₩ 80,000
	2015.06.24	2045.06.24	5.10	30,000	30,000
	2015.08.31	2045.08.31	4.48	150,000	150,000
Issuance cost				(723)	(723)
				₩ 259,277	₩ 259,277

(4) Hybrid equity securities classified as non-controlling equity are as follows (Unit: Korean won in millions):

	Issue date	Maturity	Interest rate (%)	December 31, 2016	December 31, 2015
Local currency	2013.04.25	2043.04.25	4.75	₩ 60,000	₩ 60,000
	2013.05.27	2043.05.27	4.83	40,000	40,000
	2013.10.25	2043.10.25	5.55	90,000	90,000
	2013.11.07	2043.11.07	5.72	10,000	10,000
	2013.11.11	2043.11.11	6.00	37,000	37,000
	2013.11.28	2043.11.28	6.14	63,000	63,000
Issuance cost				(450)	(450)
				₩ 299,550	₩ 299,550

The Group can exercise its right to early repayment after 10 years of issuing hybrid equity securities, and at the date of maturity, the contractual agreements allow the Group to indefinitely extend the maturity date with the same contractual terms. In addition, the Group decides not to pay the dividends of common share at general shareholders' meeting; the Group may not pay interest on the hybrid equity securities.

(5) Other components of equity

Other components of equity as of December 31, 2016 and 2015, are summarized as follows (Unit: Korean won in millions):

Classification	December 31, 2016	December 31, 2015
Accumulated other comprehensive income:		
Gain on valuation of AFS financial assets	₩ 86,065	₩ 111,591
Foreign currency translation gains (losses) on overseas operations	9,005	3,063
Remeasurement elements of defined benefit plan	(84,702)	(83,046)
Loss on valuation of hedges of net investments in foreign operations	(7,392)	-
Changes in equity under the equity method	(87)	-
Tax effects	(698)	(7,649)
	₩ 2,191	₩ 23,959

(6) Retained earnings

1) Retained earnings as of December 31, 2016 and 2015, are summarized as follows (Unit: Korean won in millions):

Classification	December 31, 2016	December 31, 2015
Reserve:		
Legal reserve (*)	₩ 418,437	₩ 417,799
Reserve for bad debts	478,209	383,553
Voluntary reserve	1,816,711	1,513,642
	2,713,357	2,314,994
Retained earnings before appropriation	1,388,315	1,335,501
	₩ 4,101,672	₩ 3,650,495

(*) Article 53 of the Financial Holding Group Act requires a parent group to appropriate at least 10% of net income after income tax to legal reserve, until such reserve equals 100% of its paid-up capital. This reserve is not available for payment of cash dividends; however, it can be used to reduce deficit or be transferred to capital.

2) Regulatory reserve for bad debts

In accordance with the Regulations for Supervision of Financial Group Holding, if allowances for credit loss under K-IFRS for the accounting purpose do not exceed those for the regulatory purpose, the Consolidated Entity discloses such shortfall amount as regulatory reserve for bad debts. Due to the fact that regulatory reserve for bad debts is a voluntary reserve, amounts exceeding the existing reserve for bad debts are over the compulsory reserve for bad debts at the period-end date and are able to be reversed in profit. In case of accumulated deficit, the Consolidated Entity should set aside reserve for bad debts at the time when accumulated deficit is gone.

Reserve for bad debt as of December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Classification	December 31, 2016		December 31, 2015	
Accumulated reserve for bad debts (*)	₩	478,209	₩	383,553
Expected reserve provided (reversed) for bad debts		12,182		94,656
Reserve for bad debts		490,391	₩	478,209
Owners of the Group	₩	490,391	₩	478,209
Non-controlling interests		-		-

(*) Accumulated reserve for bad debts as of December 31, 2016 and 2015, is the amount after appropriation of retained earnings.

Net income after the reserve reversed (provided) for the years ended December 31, 2016 and 2015, is as follows (Unit: Korean won in millions, except for earnings per share):

Classification	2016		2015	
Net income of owners of the Group	₩	501,611	₩	485,512
Reserve provided		12,182		94,656
Net income after the reserve is provided (*)		489,429		390,856
Earnings per share after the reserve is provided (in currency unit) (*)	₩	1,484	₩	1,564

(*)Net income and earnings per share after reserve for bad debts are not in accordance with K-IFRS, but are calculated on the assumption that provision or reversal of reserve for bad debts is adjusted to the net income (loss). Earnings per share after reserve for bad debts are presented net of dividends on hybrid equity securities.

28. NET INTEREST INCOME:

Net interest income, interest income and expense for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification	2016		2015	
Interest income:				
Due from banks	₩	7,318	₩	5,248
Financial assets at FVTPL		31,925		23,502
AFS financial assets		90,590		99,786
HTM financial assets		172,232		204,006
Loans		2,772,882		2,817,100
Others		181,588		169,543
		3,256,535		3,319,185
Interest expense:				
Deposits		(755,487)		(922,450)
Borrowings		(80,355)		(85,881)
Debentures		(264,978)		(258,001)
Others		(15,322)		(18,872)
		(1,116,142)		(1,285,204)
Net interest income	₩	2,140,393	₩	2,033,981

29. NET COMMISSION INCOME:

Net commission income, commission income and expense for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification	2016	2015
Commission income:		
Guarantees	₩ 12,281	₩ 13,105
Commission received	288,143	320,746
Credit card	5,778	5,220
Others	1,038	733
	307,240	339,804
Commission expenses:		
Commission paid	(57,320)	(58,505)
Credit card	(81,858)	(76,816)
	(139,178)	(135,321)
Net commission income	₩ 168,062	₩ 204,483

30. NET INCOME ON FINANCIAL ASSETS AT FVTPL:

Net income of financial assets held for trading consists of gains and losses related to financial assets for trading. Such net income includes gains and losses of interest, changes in fair value, sales, redemption and dividend income. The amounts for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification	2016	2015
Gain on financial assets held for trading:		
Gain on disposal of financial assets held for trading	₩ 259	₩ 4
Gain on sales of financial assets held for trading	27,178	15,836
Gain on valuation of financial assets held for trading	2,806	1,300
Dividend income	626	3,456
Gain on valuation of financial assets designated as at FVTPL	776	-
Dividend income from financial assets designated as at FVTPL	176	-
	31,821	20,596
Loss on financial assets held for trading:		
Loss on disposal of financial assets held for trading	(802)	(1,066)
Loss on sales of financial assets held for trading	(19,643)	(10,910)
Loss on valuation of financial assets held for trading	(7,146)	(3,838)
Purchase expenses of financial assets held for trading	-	(31)
	(27,591)	(15,845)
Net income	₩ 4,230	₩ 4,751

31. NET INCOME OR LOSS ON AFS FINANCIAL ASSETS:

Net income of AFS financial assets for the years ended December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Classification	2016	2015
Gain on AFS financial assets:		
Gain on sales of AFS financial assets	₩ 30,313	₩ 108,007
Stock dividends	31,887	30,127
Subtotal	62,200	138,134
Loss on AFS financial assets:		
Loss on sales of AFS financial assets	(315)	(562)
Impairment loss	(6,816)	(6,156)
Subtotal	(7,131)	(6,718)
Net income	₩ 55,069	₩ 131,416

32. PROVISION FOR CREDIT LOSS:

Provision for credit loss for the years ended December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Classification	2016	2015
Reversal of allowance for credit loss and others:		
Reversal of allowance:		
Reversal of allowance for losses on loans	₩ -	₩ 8
Reversal of allowance for losses on financial acceptances and guarantees	7,145	1,501
Reversal of allowance for losses on financial guarantee contract	282	2,057
Reversal of allowance for unused credit limits	137	1,965
Reversal of allowance for other liabilities	82	-
	7,646	5,531
Gain on disposal of loans	58,314	53,406
	65,960	58,937
Provision of allowances for credit loss and others:		
Provision for allowances:		
Provision for allowances for losses on loans	(418,586)	(432,654)
Provision for allowance for losses on acceptances and guarantees	-	(6,826)
Provision for allowance for losses on unused credit limits	(2,938)	(24)
Provision for allowance for losses on financial guarantee contract	(56)	(507)
	(421,580)	(440,011)
Loss on disposal of loans	(75,764)	(66,244)
	(497,344)	(506,255)
Provision of allowances for credit loss and others	₩ (431,384)	₩ (447,318)

33. GENERAL AND ADMINISTRATIVE EXPENSES:

(1) General and administrative expenses for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification	2016	2015
Employee benefits:		
Salaries and compensation expenses	₩ 485,225	₩ 391,263
Other employee benefits	147,612	227,666
Provision for severance benefits	52,829	49,463
Honorary retirement allowance	35,299	30,544
	720,965	698,936
Rent	38,582	37,564
Expenditure for business purpose	17,108	18,848
Depreciation expense	64,020	63,046
Amortization expenses on intangible assets	75,225	71,583
Taxes and dues	37,453	34,656
Other administrative expenses	168,799	178,947
	₩ 1,122,152	₩ 1,103,580

34. OTHER OPERATING REVENUES AND EXPENSES:

(1) Net income and loss on foreign currency transactions for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification	2016	2015
Income on foreign currency transactions:		
Gain on foreign currency transactions	₩ 298,488	₩ 319,267
Foreign currency translation gains	49,436	24,380
	347,924	343,647
Loss on foreign currency transactions:		
Loss on foreign currency transactions	(282,665)	(308,079)
Foreign currency translation losses	(56,200)	(19,211)
	(338,865)	(327,290)
Net income	₩ 9,059	₩ 16,357

(2) Net income and loss related to derivatives for the year ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification	2016	2015
Gains on financial derivatives:		
Gains on derivative transactions	₩ 477,568	₩ 659,483
Gains on valuation of derivatives	145,332	130,882
Gains on settlement of derivatives	63	43
	622,963	790,408
Losses on financial derivatives:		
Losses on derivative transactions	(463,685)	(642,326)
Losses on valuation of derivatives	(141,695)	(121,936)
Losses on settlement of derivatives	(47)	(57)
	(605,427)	(764,319)
Net income	₩ 17,536	₩ 26,089

(3) Other operating revenues and expenses for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification	2016	2015
Other operating revenue:		
Gain on fair value hedged items	₩ 27,636	₩ -
Trust fees and commissions received from trust account	26,884	19,360
Reversal of allowance for others	36,185	39,947
Operating lease income	125,934	102,560
Others	1,392	1,447
	218,031	163,314
Other operating expenses:		
Loss on fair value hedged items	(99)	-
Trust management fees	(86)	(1,231)
Credit card charges	(21)	(26)
Contribution to credit guarantee fund	(82,920)	(82,556)
Contribution to housing credit guarantee fund	(28,546)	(28,433)
Insurance fees on deposits	(86,513)	(81,927)
Provision for allowances for others	(191)	(1,913)
Operating lease expense	(131,441)	(124,184)
Others	(16,746)	(13,047)
	(346,563)	(333,317)
Other operating (loss) income	₩ (128,532)	₩ (170,003)

35. NON-OPERATING REVENUES AND EXPENSES:

Non-operating revenues and expenses for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification		2016		2015
Revenue from investment in affiliated companies:				
Gain on equity method	₩	665	₩	676
Gain on disposal of investment securities under the equity method		552		-
Loss on equity method		(67)		-
Loss on disposal of investment securities under the equity method		(501)		-
		649		676
Non-operating revenues:				
Gain on sale of tangible assets		444		149
Gain on sale of non-current assets held for sale		-		421
Reversal of loss on impairment of intangible assets		136		273
Rental income		1,596		1,535
Restoration income		233		212
Gain on collection of charge-offs		1,876		1,718
Miscellaneous profit		16,603		33,187
Other non-operating gains		131		11
		21,019		37,506
Non-operating expenses:				
Expenses on collection of charge-offs		(527)		(641)
Loss on disposal of tangible assets		(863)		(1,180)
Loss on sale of non-current assets held for sale		(524)		(386)
Loss on impairment of intangible assets		(17,487)		(251)
Donations		(21,106)		(25,285)
Miscellaneous expenses		(4,855)		(6,061)
Restoration loss		(183)		(448)
Regulation penalty		-		(45)
		(45,545)		(34,297)
Non-operating income (loss)	₩	(23,877)	₩	3,885

36. INCOME TAX EXPENSE:

(1) The components of income tax expense for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification		2016		2015
Income tax currently payable	₩	184,431	₩	144,187
Changes in deferred income tax liabilities by temporary difference:				
Opening balance of deferred income tax liabilities		(59,587)		(48,337)
Ending balance of deferred income tax liabilities		(36,446)		(59,587)
		(23,141)		11,250
Effect of business combination		-		1,405
Tax effect		161,290		156,842
Changes in deferred income tax liabilities reflected directly in shareholders' equity:				
Opening balance of deferred income tax liabilities		(10,365)		(23,113)
Ending balance of deferred income tax liabilities		(1,365)		(10,365)
		9,000		12,748
Income tax expense	₩	170,290	₩	169,590

(2) The details of changes in accumulated temporary differences for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification	December 31, 2016 Accumulated temporary difference		December 31, 2016 Deferred tax assets (liabilities)	
Temporary difference to be deducted:				
Gains or losses on valuation of financial assets	₩	54,925	₩	13,285
Accrued expenses		55,576		13,425
Adjustment of acquisition value for debt-to-equity swap		54,756		13,251
Deferred loan origination fees		22,350		5,384
Allowance for losses on unused credit limits		22,809		5,520
Honorary retirement benefits		23,782		5,755
Loss on valuation of derivative instruments		123,958		29,998
Deposits that the statute of limitation expired		5,499		1,330
Guarantee deposits for leases (discounted present value)		4,368		1,052
Unearned point revenues		10,959		2,652
Other allowance		72,257		17,482
Loss on valuation of unsettled spot transactions		746		180
Allowance for possible losses on acceptances and guarantees		11,115		2,690
Allowances for retirement benefits disallowance		284,609		68,731
Unearned revenues (leasehold deposits provided)		8,240		1,994
Impairment of AFS financial assets		44,249		10,704
Claim for reimbursement		120,089		29,062
Others		109,365		21,164
Tax deficit		28,455		6,674
		1,058,107		250,333
Temporary difference to be added:				
Interest receivables on securities		(190,100)		(45,919)
Revaluation of excess of land		(51,211)		(12,393)
Gain on valuation of debentures invested (adjustment of book value)		(27,570)		(6,670)
Gain on valuation of derivative instruments		(124,209)		(30,058)
Investments in credit rehabilitation fund		(16,704)		(4,042)
Deferred loan origination costs		(148,537)		(35,879)
Guarantee deposits for leases (prepaid rent)		(5,171)		(1,244)
Discounted present value		(8,530)		(2,064)
Initial direct costs of lease		(15,884)		(3,844)
Remeasurement elements of defined benefit plan		(371,994)		(89,902)
Fair value adjustment by business combination		(184,610)		(44,676)
Others		(36,731)		(8,723)
		(1,181,251)		(285,414)
Net of temporary difference		(123,144)		(35,081)
Temporary difference reflected directly in shareholders' equity:				
Loss on valuation of AFS financial assets		(110,373)		(26,320)
Foreign currency translation losses on overseas operations		(8,792)		(2,128)
Remeasurement elements of defined benefit plan		104,525		25,273
Loss on valuation of hedges of net investments in foreign operations		7,391		1,789
Changes in equity under the equity method		87		21
		(7,162)		(1,365)
Deferred income tax liabilities			₩	(36,446)

Classification	December 31, 2015 Accumulated temporary difference	Deferred tax assets (liabilities)
Temporary difference to be deducted:		
Gains or losses on valuation of financial assets	₩ 56,304	₩ 13,625
Accrued expenses	60,707	14,668
Adjustment of acquisition value for debt-to-equity swap	54,719	13,227
Deferred loan origination fees	23,489	5,671
Allowance for losses on unused credit limits	8,685	2,102
Honorary retirement benefits	22,267	5,388
Loss on valuation of derivative instruments	123,456	29,876
Deposits that the statute of limitation expired	4,690	1,135
Guarantee deposits for leases (discounted present value)	4,653	1,121
Unearned point revenues	10,161	2,459
Other allowance	123,314	29,837
Loss on valuation of unsettled spot transactions	2,378	576
Allowance for possible losses on acceptances and guarantees	17,950	4,344
Allowances for retirement benefits disallowance	213,236	51,510
Unearned revenues (leasehold deposits provided)	11,130	2,693
Impairment of AFS financial assets	61,884	14,953
Claim for reimbursement	120,089	29,062
Others	109,396	26,435
Tax deficit	31,675	7,443
	1,060,183	256,125
Temporary difference to be added:		
Interest receivables on securities	(253,150)	(61,201)
Revaluation of excess of land	(60,853)	(14,726)
Gain on valuation of debentures invested (adjustment of book value)	(92,115)	(21,923)
Gain on valuation of derivative instruments	(131,559)	(31,838)
Investments in credit rehabilitation fund	(16,034)	(3,880)
Deferred loan origination costs	(140,229)	(33,909)
Guarantee deposits for leases (prepaid rent)	(5,976)	(1,440)
Discounted present value	(11,252)	(2,723)
Initial direct costs of lease	(15,644)	(3,786)
Remeasurement elements of defined benefit plan	(293,591)	(70,964)
Fair value adjustment by business combination	(218,463)	(52,868)
Others	(5,064)	(6,089)
	(1,243,930)	(305,347)
Net of temporary difference	(183,747)	(49,222)
Temporary difference reflected directly in shareholders' equity:		
Loss on valuation of AFS financial assets	(143,405)	(34,515)
Foreign currency translation losses on overseas operations	(3,606)	(873)
Remeasurement elements of defined benefit plan	103,448	25,023
	(43,563)	(10,365)
Deferred income tax liabilities		₩ (59,587)

(3) Reconciliation between income before income tax and income tax expense for the years ended December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Description	2016	2015
Income before income tax	₩ 688,404	₩ 700,061
Taxes payable (*)	166,132	168,953
Reconciliation items:		
Non-taxable income (₩33,169 million in 2016, ₩33,739 million in 2015)	(8,005)	(8,143)
Non-deductible expenses (₩22,301 million in 2016, ₩19,227 million in 2015)	5,382	4,640
Consolidated tax	(11,841)	(11,693)
Others	18,622	15,833
Income tax expense	₩ 170,290	₩ 169,590
Effective tax rate (income tax expense/income before income tax)	24.74%	24.23%

(*) Taxes payable are calculated by applying income tax rate (11% for less than ₩200 million, 22% for ₩200 million to ₩20 billion and 24.2% for more than ₩20 billion) to income before income tax.

(4) As of the current reporting date, the tax offset period for future taxable income (due to tax net operating loss carried forward and net operating loss for the current period) is as follows:

Year incurred	Loss incurred (*)	Lapse amount	Balance as of December 31, 2016	Offset period
2011	₩ 4,620	₩ -	₩ 4,620	Until the end of 2021

(*)The Consolidated Entity has implemented a consolidated tax system from 2012, which disables offset of any losses carried forward prior to the consolidated tax system.

(5) The details of current tax liabilities (income tax payable) and current tax assets (income tax refundable) before offsetting as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification	2016	2015
Income tax refundable prior to offsetting	₩ 100,386	₩ 73,856
Tax payables prior to offsetting	182,248	137,923
Current tax liabilities	₩ 81,862	₩ 64,067

37. OTHER COMPONENTS OF EQUITY:

Other components of equity for the year ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	2016		
Classification	Beginning balance	Increase (decrease)	Ending balance
Gain on valuation of AFS financial assets:	₩ 84,586	₩ (19,349)	₩ 65,237
Changes in equity under the equity method	-	(66)	(66)
Foreign currency translation gains on overseas operations	2,322	4,504	6,826
Loss on valuation of hedges of net investments in foreign operations	-	(5,603)	(5,603)
Remeasurement elements of defined benefit plan	(62,949)	(1,255)	(64,204)
	₩ 23,959	₩ (21,769)	₩ 2,190

Classification	2015 Beginning balance	Increase (decrease)	Ending balance
Gain on valuation of AFS financial assets:	₩ 73,986	₩ 10,600	₩ 84,586
Gain on cash flow hedges	24	(24)	-
Foreign currency translation gains on overseas operations	576	1,746	2,322
Remeasurement elements of defined benefit plan	(51,222)	(11,727)	(62,949)
	₩ 23,364	₩ 595	₩ 23,959

38. **EARNINGS PER SHARE:**

(1) Earnings per share

Income from continued operations for common shares is calculated by reflecting income tax expense in income from continued operations in the consolidated statements of comprehensive income. After dividing income from continued operations and net income by weighted-average number of common shares, income from continued operations per share and earnings per share are calculated.

(2) Income from continued operations per share and earnings per share as of December 31, 2016 and 2015, are as follows.

2016

Classification	Start date	End date	Day	Number of shares	Accumulation of days
January 1, 2016	2016-01-01	2016-01-22	22	255,920,391	5,630,248,602
Increased paid-up capital	2016-01-23	2016-12-31	344	325,920,391	112,116,614,504
Total			366		117,746,863,106
Weighted-average number of common shares					321,712,741

2015

Classification	Start date	End date	Day	Number of shares	Accumulation of days
January 1, 2016	2015-01-01	2015-06-03	154	234,379,899	36,094,504,446
Exchange shares	2015-06-04	2015-06-04	-	255,935,246	-
Increased paid-up capital	2015-06-04	2015-12-31	211	255,920,391	53,999,202,501
Total			365		90,093,706,947
Weighted-average number of common shares					246,832,074

(3) Basic net income per share for the years ended December 31, 2016 and 2015, is as follows (Unit: In Korean won):

Classification	2016	2015
Net income attributable to owners of the Group	₩ 501,610,990,837	₩ 485,512,282,267
Dividends for hybrid equity securities	(12,045,777,779)	(4,882,333,333)
Net income available for common stocks	489,565,213,058	480,629,948,934
Weighted-average number of shares	÷ 321,712,741	÷ 246,832,074
Earnings per share	₩ 1,522	₩ 1,947

Due to no income from discontinued operations for the years ended December 31, 2016 and 2015, income from continued operations for common shares is the same as net income for common shares.

39. CONTINGENCIES AND COMMITMENTS:

(1) Guarantee payments as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification	Type	December 31, 2016	December 31, 2015
Confirmed acceptances and guarantees:			
Confirmed acceptances and guarantees in Korean won	Guarantee payment for loans	₩ 138,642	₩ 132,906
	Others	568,847	738,088
		707,489	870,994
Confirmed acceptances and guarantees in foreign currencies	Acceptances on letters of credit	11,466	14,877
	Acceptances on letters of guarantee for importers	31,261	32,252
	Others	262,821	260,285
		305,548	307,414
		1,013,037	1,178,408
Unconfirmed acceptances and guarantees	Letters of credit	327,043	427,626
	Others	14,514	17,268
		341,557	444,894
Others :	Endorsed bill	1,829	811
		₩ 1,356,423	₩ 1,624,113

(2) Confirmed and unconfirmed acceptances and guarantees by customer as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

	December 31, 2016		December 31, 2015	
Classification	Amount	Percentage (%)	Amount	Percentage (%)
Confirmed acceptances and guarantees:				
Large corporate	₩ 350,193	34.57	₩ 316,473	26.86
Small- and middle-sized corporate (*)	640,347	63.21	655,193	55.60
Household	22,497	2.22	206,742	17.54
	₩ 1,013,037	100.00	₩ 1,178,408	100.00
Unconfirmed acceptances and guarantees:				
Large corporate	₩ 92,525	27.09	₩ 33,103	7.44
Small- and middle-sized corporate (*)	249,032	72.91	331,488	74.51
Household	-	-	80,303	18.05
	₩ 341,557	100.00	₩ 444,894	100.00

(*) Small- and middle-sized corporate indicates SME in Article 2, Section 1, of small- and medium-sized Enterprise Basic Law.

(3) Confirmed and unconfirmed acceptances and guarantees by country as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification	December 31, 2016 Amount	December 31, 2016 Percentage (%)	December 31, 2015 Amount	December 31, 2015 Percentage (%)
Confirmed acceptances and guarantees:				
Korea	₩ 1,012,997	99.99	₩ 1,178,368	99.99
Others	40	0.01	40	0.01
	₩ 1,013,037	100.00	₩ 1,178,408	100.00
Unconfirmed acceptances and guarantees:				
Korea	₩ 341,492	99.98	₩ 442,432	99.45
China	65	0.02	127	0.03
Others	-	-	2,335	0.52
	₩ 341,557	100.00	₩ 444,894	100.00

(4) Unused commitments as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Subject	December 31, 2016	December 31, 2015
Corporates	₩ 7,581,780	₩ 5,518,939
Households	1,086,010	1,060,450
Credit card	2,312,318	1,946,193
Securities purchase agreement	374,790	352,129
Others	-	11,985
	₩ 11,354,898	₩ 8,889,696

(5) Lawsuits

As of December 31, 2016 and 2015, the Consolidated Entity's major lawsuits are as follows (Unit: Korean won in millions):

Classification	December 31, 2016 As a plaintiff	December 31, 2016 As a dependent	December 31, 2015 As a plaintiff	December 31, 2015 As a dependent
Number (case)	47 cases	69 cases	64 cases	103 cases
Amount	₩ 150,973	₩ 88,527	₩ 157,282	₩ 107,435
Provisions related to these lawsuits		₩ 61,568		₩ 98,158

The Consolidated Entity recognized ₩61,568 million of provisions related to these lawsuits as at the end of the reporting period.

(6) Ordinary wages

Supreme Court has handed down sentences in ordinary wages. The Consolidated Entity reviewed the effect by Supreme Court ruling on the Consolidated Entity's consolidated financial statements. In addition, the Consolidated Entity determined not to recognize provisions because the Consolidated Entity anticipates that the outflows of resources are unlikely to be realized.

40. TRUST ACCOUNT (Not audited by independent auditor):

Financial information of trust account is prepared in accordance with Korea Financial Accounting Standard 5004 'Trust Account of Trust Vendor' based on the Financial Investment Services and Capital Markets Act and Financial Industry Detailed Regulatory.

(1) Financial summary of trust accounts for which the Consolidated Entity provides the guarantees for a fixed rate of return and the repayment of principal as of December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Classification	December 31, 2016 Total assets	December 31, 2016 Operating income	December 31, 2015 Total assets	December 31, 2015 Operating income
Trust accounts guaranteeing a fixed rate of return and the repayment of principal (*1)	₩ 2,196	₩ 66	₩ 2,179	₩ 281
Trust accounts guaranteeing the repayment of principal (*2)	450,912	16,423	419,481	15,437
Mixed trust accounts (*3)	4,798	212	4,979	212
Performance-based trust accounts (*4)	13,213,311	139,292	11,235,929	140,613
	₩ 13,671,217	₩ 155,993	₩ 11,662,568	₩ 156,543

(*1) Non-restricted money trust and development trust
(*2) Retirement pension trust, personal pension trust, retirement trust, new private pension trust and pension trust
(*3) Installment money in trust, household money in trust and Group money in trust
(*4) Long-term household trust, newly accumulated trust, national stock trust, specified monetary trust, unit monetary trust, additional monetary trust, workers' preferential trust and pension plan trust

(2) The transactions between the Consolidated Entity and trust accounts for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification		2016	2015
Revenues	Gain on trust account	₩ 26,884	₩ 19,359
	Retirement pension management fee	5,245	4,668
		32,129	24,027
Expenses	Interest expense related to borrowings from trust account	5,985	6,547
	Subsidy for trust accounts adjustment	-	-
	Trust management fee	2	3
		₩ 5,987	₩ 6,550

(3) Assets and liabilities of trust accounts as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification		December 31, 2016	December 31, 2015
Assets	Accrued income	₩ 7,077	₩ 5,679
	Retirement pension management fee	2,602	2,189
		9,679	7,868
Liabilities	Borrowings from trust account	458,097	397,481
	Accrued expenses	311	388
	Unearned revenue	289	236
		₩ 458,697	₩ 398,105

(4) Details of trust accounts for which the Consolidated Entity provides the guarantees for a fixed rate of return and the repayment of principal as December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification	December 31, 2016	December 31, 2015
Trust accounts guaranteeing the repayment of principal:		
Elderly living pension trust	₩ 639	₩ 1,005
Personnel pension trust	163,890	181,476
Retirement trust	17,070	5,627
New personnel pension trust	6,481	4,667
Pension trust	225,630	218,793
	413,710	411,568
Trust accounts guaranteeing a fixed rate of return and the repayment of principal:		
Unspecified monetary trust	31	26
Borrowings from trust account	244	230
Interest payable - borrowings from trust Account	698	751
	₩ 973	₩ 1,007

41. TRANSACTIONS WITH RELATED PARTIES:

All intercompany transactions, including intercompany receivables and payables, are eliminated while preparing consolidated financial statements.

(1) Outstanding balances with related parties as of December 31, 2016 and 2015, are as follows (Korean won in thousands):

Counterparty	Classification	December 31, 2016	December 31, 2015
Forcetech Co., Ltd.	Loans	₩ 28,641	₩ 51,796
	Allowance for loan losses	1,316	12,712
	Other assets	-	4
	Deposits	4	1

(2) Important transactions with related parties for the years ended December 31, 2016 and 2015, are as follows (Korean won in thousands):

Classification	Counterparty	2016		2015	
		Revenue transaction	Cost transaction	Revenue transaction	Cost transaction
Associates	Tongyang HighPlus government and public bonds 1	₩ -	₩ -	₩ 469	₩ -
	Consus Clean Water Private Special Asset Fund-1	218	-	107	-
	Forcetech Co., Ltd.	327	-	840	-
Joint venture	Dongwha Capital	-	154	-	-

(3) Compensation for key executives for the year ended December 31, 2016 and 2015, is as follows (Unit: Korean won in millions):

Classification	2016	2015
Short-term employee benefits	₩ 1,309	₩ 1,350
Share-based payment	452	392

Key management consists of executives of the Parent and Busan Bank.

42. NON-CURRENT ASSETS HELD FOR SALE:

The Consolidated Entity reclassified lands, which are intended through a sale transaction rather than through continued use, as non-current assets held for sale as of December 31, 2016. Reclassified lands amounted to ₩26,172 million as of December 31, 2016.

43. CASH FLOWS:

(1) The Consolidated Entity's cash and cash equivalents in the consolidated statements of cash flows as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification	December 31, 2016		December 31, 2015	
Cash on hand	₩	524,483	₩	606,182
Foreign currencies		90,872		81,991
Deposits in local currency		2,521,935		2,098,793
Deposits in foreign currencies		276,761		304,294
		3,414,051		3,091,260
Due from banks with maturity exceeding three months (see Note 7)		(2,555,439)		(1,947,373)
	₩	858,612	₩	1,143,887

Cash and cash equivalents in the consolidated statements of cash flows include cash, cash in other branches, deposits in the BOK and deposits in other financial institutions, and are subtracted from deposits with maturity within three months at acquisition and restricted deposits.

(2) Details of material transactions without cash inflow and outflow as of December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

Classification	2016		2015	
Decrease in loans from write-offs	₩	7,270	₩	218,823
Reclassification of construction in process		57,511		28,076
Issue of shares due to stock exchange		-		322,252

44. NON-CONSOLIDATED STRUCTURED ENTITIES:

The Consolidated Entity owns capital in non-consolidated structured entities where the Consolidated Entity does not have control in accordance with K-IFRS 1110. The natures of capital and risks are as follows.

Capital owned by the Consolidated Entity in non-consolidated structured entities has been classified per nature and purpose of each structured entity into structured financing and investment fund.

Non-consolidated structured entities classified as 'structured financing' include real estate project financing investment entity, infrastructure development entity and special-purpose entity for shipping and aviation financing. Each entity has been established separately for the limited purpose of efficient promotion of business, and raises its capital from having financial institutions and other participating institutions invest in securities, as well as loans. 'Structured financing' is a capital raising method mainly used for large-scale businesses with high risk, where economic feasibility of a particular business or project is used as the basis for investment, rather than credit or material guarantee. Profit arising from business progress is collected by the investors. In regard to this, the Consolidated Entity recognizes interest revenue, gain on valuation of equity securities and dividends received. With respect to uncertainty of 'structured financing,' there exists an entity that provides financial support, such as joint guarantee, refinancing and unsubordinated credit ahead of the Consolidated Entity. However, upon occurrence of events, such as failure to collect funds according to schedule and suspension of business, the Consolidated Entity can be exposed to principal losses due to depreciation in value of invested securities, as well as losses due to irrecoverable loans.

Non-consolidated structured entities classified as 'investment fund' include trust company and private placement investment company. Trust company entrusts investment and management to trust managers in accordance with the trust agreement, and it is structured to distribute operating profit to investors of the trust, whereas private placement investment company raises capital for gaining control of the management and improvement of governance structure of equity securities via private placement, and it is structured to distribute profit between investors. The Consolidated Entity, as an investor of investment funds, recognizes gain on valuation of equity securities, as well as dividends received proportionate to ownership percentage. The Consolidated Entity can be exposed to principal losses upon depreciation in value of such investment fund.

Total asset size of the non-consolidated structured entities, book value for the line items as recognized in the consolidated financial statements, maximum exposure to loss and loss incurred for the years ended December 31, 2016 and 2015, are as follows (Unit: Korean won in millions):

December 31, 2016

Classification	Investment fund	PF	Asset-backed securitization
Total assets of non-consolidated structured entity	₩ 20,141,605	₩ 39,715,257	₩ 33,206,780
Recognized assets related to non-consolidated structured entities:			
Financial assets at FVTPL	21,343	-	-
AFS financial assets	642,354	187,065	246,352
HTM financial assets	-	-	158,547
Loans and receivables	-	2,854,636	5,250
(Allowance for loan losses)	-	(25,196)	(24)
Total	₩ 663,697	₩ 3,016,505	₩ 410,125
Recognized liabilities related to non-consolidated structured entities:			
Financial guarantee contract	₩ -	₩ 25	₩ -
Maximum exposure to loss (*):			
Investment property	663,697	3,016,505	410,173
Investment commitments	77,346	26,200	-
Loan commitments	-	1,116,662	-
Financial guarantee contract	-	8,430	-
Purchase commitment	-	-	141,000
Total	₩ 741,043	₩ 4,167,797	₩ 551,173
Loss on non-consolidated structured entity	₩ 2,503	₩ 9,035	₩ 1

(December 31, 2015)

Classification	Investment fund	PF	Asset-backed securitization
Total assets of non-consolidated structured entity	₩ 12,144,808	₩ 28,078,739	₩ 9,757,510
Recognized assets related to non-consolidated structured entities:			
Financial assets at FVTPL	-	-	-
AFS financial assets	490,568	182,852	18,293
HTM financial assets	-	-	-
Loans and receivables	20,368	1,428,046	122,801
(Allowance for loan losses)	-	(28,943)	-
Total	₩ 510,936	₩ 1,581,955	₩ 141,094
Recognized liabilities related to non-consolidated structured entities:			
Financial guarantee contract	₩ -	₩ 287	₩ -
Maximum exposure to loss (*):			
Investment property	510,936	1,581,955	141,094
Investment commitments	94,344	32,622	-
Loan commitments	-	905,973	-
Financial guarantee contract	-	20,000	-
Purchase commitment	-	-	35,500
Total	₩ 605,280	₩ 2,540,550	₩ 176,594
Loss on non-consolidated structured entity	₩ 1,126	₩ 11,257	₩ -

(*) The maximum exposure to loss includes investment amounts recognized in the consolidated financial statements and the amounts that are determined by meeting certain conditions in the future based on the agreements of purchase, granting credit, etc.

45. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY:

Assets and liabilities denominated in foreign currency as of December 31, 2016 and 2015, are summarized as follows (Unit: USD in millions, JPY in millions, CNY in millions, EUR in millions and KRW in millions):

a. December 31, 2016

Classification	USA		Japan		Euro		China		Others	Total
	USD	KRW	JPY	KRW	EUR	KRW	CNY	KRW	KRW	KRW
Assets:										
Cash and due from banks	178	₩ 215,057	3,682	₩ 38,171	21	₩ 26,559	158	₩ 27,374	₩ 22,815	₩ 329,976
AFS financial assets	53	63,409	-	-	-	-	-	-	-	63,409
Loans and receivables	1,333	1,610,529	27,534	285,473	69	87,461	116	20,145	51,238	2,054,846
Other assets	696	841,398	9,835	101,970	3	3,275	4	666	73	947,382
	2,260	₩ 2,730,393	41,051	₩ 425,614	93	₩ 117,295	278	₩ 48,185	₩ 74,126	₩ 3,395,613
Liabilities:										
Deposits	642	₩ 776,017	8,316	₩ 86,219	28	₩ 35,756	46	₩ 7,887	₩ 12,886	₩ 918,765
Borrowings	613	741,024	11,602	120,295	21	26,364	34	5,965	2,346	895,994
Debentures	526	635,599	19,945	206,796	-	-	-	-	-	842,395
Other liabilities	714	863,430	1,212	12,563	34	43,282	7	1,128	5,119	925,522
	2,495	₩ 3,016,070	41,075	₩ 425,873	83	₩ 105,402	87	₩ 14,980	₩ 20,351	₩ 3,582,676

b. December 31, 2015

Classification	USA		Japan		Euro		China		Others	Total
	USD	KRW	JPY	KRW	EUR	KRW	CNY	KRW	KRW	KRW
Assets:										
Cash and due from banks	214	₩ 250,297	4,893	₩ 47,562	24	₩ 30,563	195	₩ 34,576	₩ 24,890	₩ 387,888
AFS financial assets	13	14,707	-	-	-	-	-	-	-	14,707
Loans and receivables	1,539	1,803,462	33,166	322,372	63	80,133	5	888	5,829	2,212,684
Other assets	1,241	1,454,745	18,138	176,307	7	8,371	5	847	3,113	1,643,383
	3,007	₩ 3,523,211	56,197	₩ 546,241	94	₩ 119,067	205	₩ 36,311	₩ 33,832	₩ 4,258,662
Liabilities:										
Deposits	610	₩ 714,655	7,681	₩ 74,663	30	₩ 38,321	27	₩ 4,871	₩ 12,911	₩ 845,421
Borrowings	636	745,202	20,817	202,342	44	56,674	-	-	2,437	1,006,655
Debentures	299	350,658	19,908	193,507	-	-	-	-	-	544,165
Other liabilities	1,399	1,639,054	7,515	73,048	8	10,331	4	597	385	1,723,415
	2,944	₩ 3,449,569	₩ 55,921	₩ 543,560	82	₩ 105,326	31	₩ 5,468	₩ 15,733	₩ 4,119,656

46. BUSINESS COMBINATION:

(1) Acquisition of BNK Asset Management Co., Ltd.

The Consolidated Entity purchased 35.75% (929,497 shares) of BNK Asset Management Co., Ltd.'s (formerly GS Asset Management Co., Ltd.) stock on July 23, 2015, and participated in issue of BNK Asset Management Co., Ltd.'s new shares on July 28, 2015, hence acquired control of the company by acquiring 51.01% (1,793,497 shares) of the stock.

1) The Fair value of the consideration transferred in the business combination above is as follows (Unit: Korean won in millions):

Classification	Amount
Cash	₩ 8,697

Acquisition-related costs of ₩352 million are not included in the consideration transferred in the business combination and recognized as the commission expenses in the consolidated statements of comprehensive income.

2) The fair value of assets and liabilities acquired from the business combination above is as follows (Unit: Korean won in millions):

Classification	Amount
Fair value of identifiable assets:	₩ 10,975
Cash and cash equivalents	41
AFS financial assets	5,450
Loans	3,761
Tangible assets	115
Intangible assets	194
Other assets	9
Deferred income tax assets	1,405
Fair value of identifiable liabilities:	305
Other financial liabilities	212
Other liabilities	93
Fair value of identifiable equity:	₩ 10,670

There is no intangible asset additionally recorded from the business combination.

3) Goodwill arised from business combination during the current reporting period is as follows:

Classification	Amount
The consideration transferred in the business combination	₩ 8,697
Non-controlling equity(*1)	5,227
Fair value of identifiable equity	(10,670)
Goodwill	₩ 3,254

(*1) The Consolidated Entity measured the above non-controlling equity proportionate to net assets as recognized at the date of acquisition.

4) Net cash outflow due to business occurrence during the reporting period is as follows:

Classification	Amount
Consideration paid in cash	₩ 8,697
Less: cash and cash equivalents acquired	41
	₩ 8,656

47. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS:

The consolidated financial statements were issued and approved on February 9, 2017, and will get final approval during the shareholders' meeting on March 24, 2017.