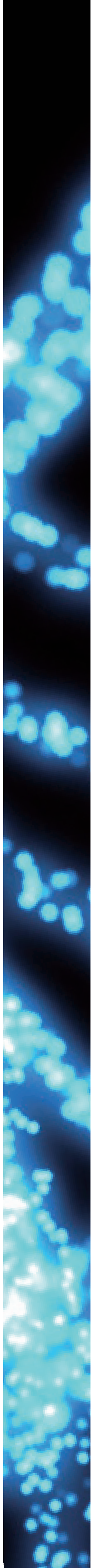
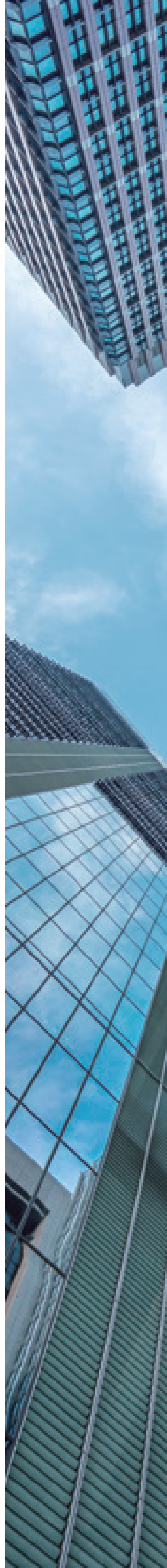
2016 ANNUAL REPORT

KDB Bank

CONTENTS





Change and Innovation will bring to life a new chapter of the

"KDB Success Story"

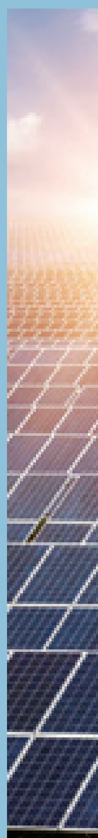
KDB is part of the living history of the Korean economy as a leading financial institution in Korea. KDB is committed to playing a pivotal role in addressing new demands resulting from changes in the financial environment, while also expanding our services to respective companies to help the financial industry develop in a market-friendly and an advanced way. Change and innovation, which will facilitate the growth and development of the Korean economy, will bring forth a new "KDB Success Story".

High &

Reviving additional growth in Korea's financial markets

KDB has been faithful in fulfilling its duties as an institution of policy finance to encourage the growth of start-ups and medium-sized businesses, and promote companies with innovative and promising technology. We will revitalize Korea's economic fundamentals by increasing our financial services to promising industries linked to the fourth industrial revolution and reignite the engines of growth.

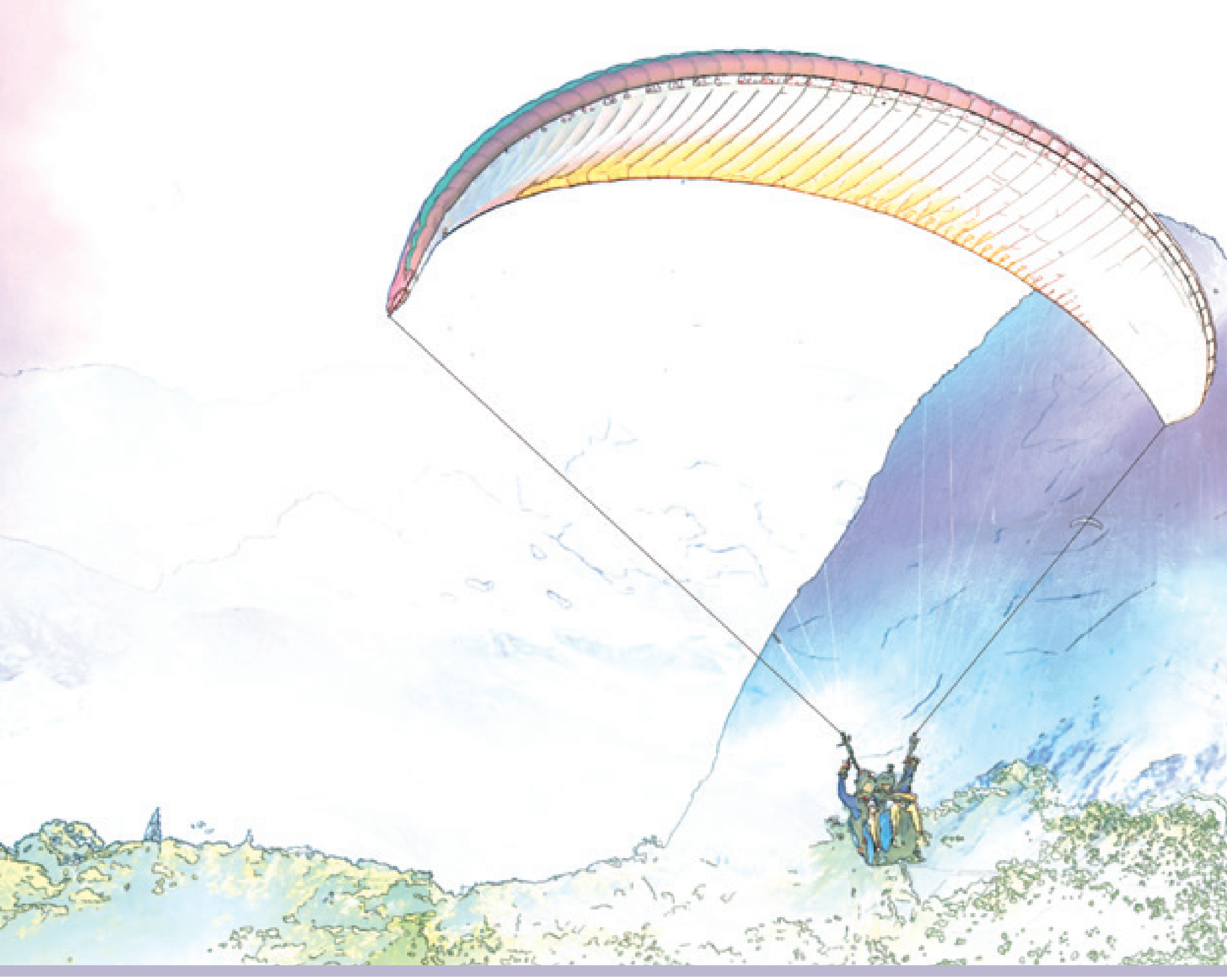
Higher

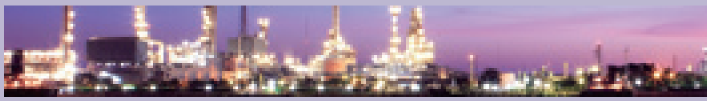


AA

2016 Credit Rating by S&P Uplifted

(From AA- in 2015)



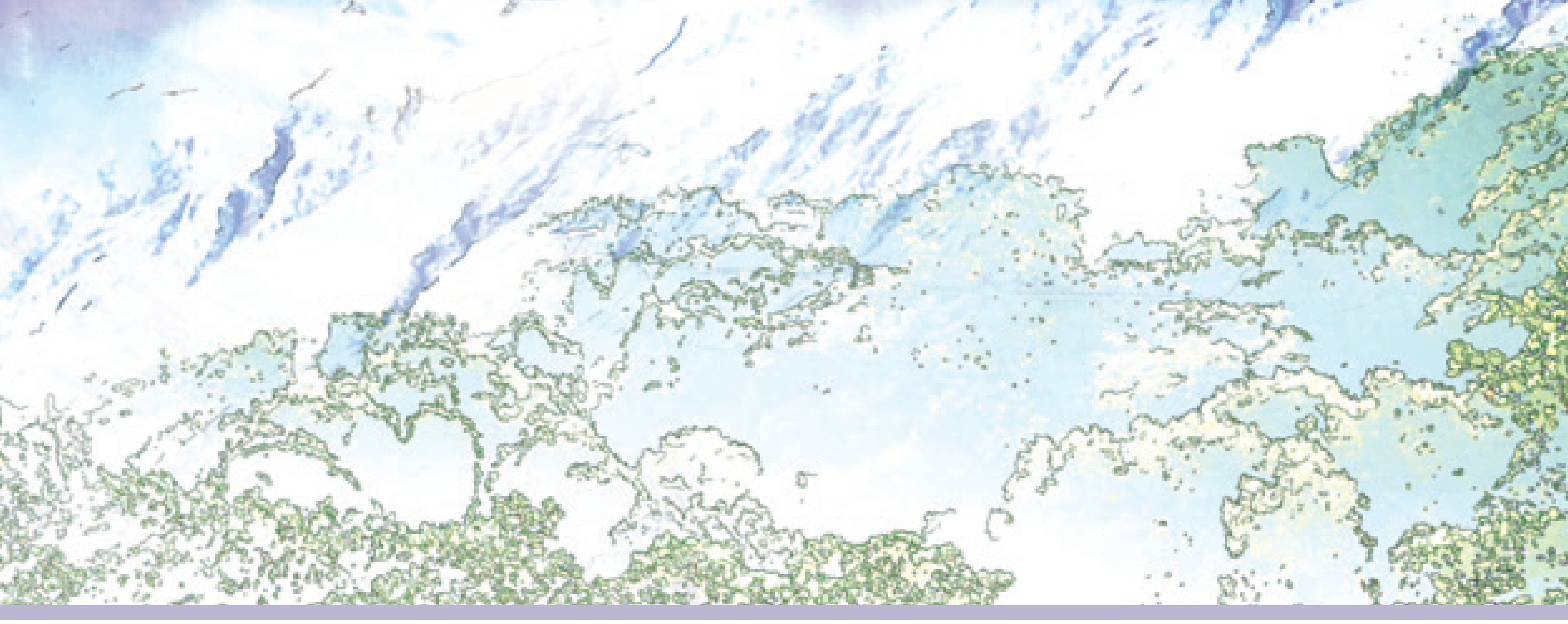


2.2

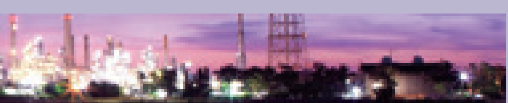
USD Billion
2016 Overseas PF Financing Arrangements Expanded
(From 1.4 USD Billion in 2015)

Wide &

Widening Korea's financial markets
KDB has continuously developed premium products in areas that require expertise such as project finance and private equity, and made concerted efforts to become a global bank through cooperation with international financial institutions and alliances with major multilateral organizations.
By cultivating new roads not previously taken, we will differentiate our strategy and lead the future of Korea's financial industry.

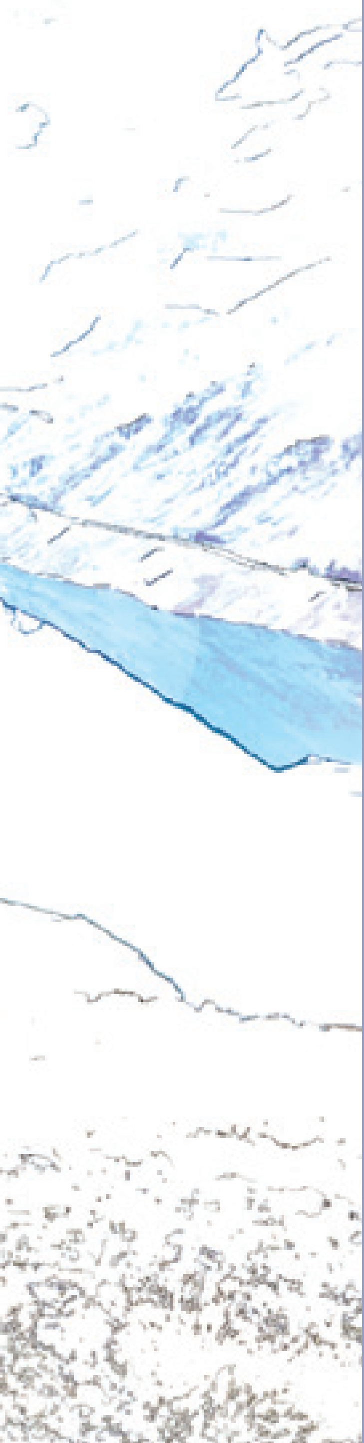


Wider

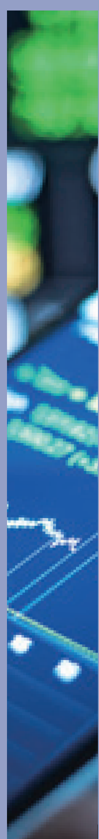


Strong &

Making Korea's financial markets stronger
KDB will strengthen the management of KDB-invested companies as a response to expanded volatility in the business environment, while also improving the Bank's asset and financial soundness through the continual upgrading of its risk management system, including the new implementation of selective lines of credit to major group companies and their affiliates. In addition, we will reinforce our core competencies and solidify our organizational infrastructure, thus securing the foundation for sustainability and further development of Korea's financial markets.



Stronger



14.86%

2016 BIS Ratio Enhanced

(From 14.19% in 2015)

CEO Message

Dear Valued Customers,

We would like to take this opportunity to extend our sincere gratitude for your unwavering support of The Korea Development Bank (KDB).

2016 was a year marked by high levels of uncertainty within the global markets, starting with China's lower economic outlook followed by the Brexit referendum and the U.S. presidential election. In Korea, amid a slower-than-expected private consumption and construction sector recovery, concerns have risen regarding unemployment and the potential contraction of provincial economies caused by restructuring in major industries and companies. Despite such a delicate economic environment, we have endeavored to fulfill our responsibilities.

Through implementation of a disciplined approach in corporate restructuring, we strived to ease uncertainty in the domestic economy. Moreover, to enhance our leadership as a representative financial institution in Korea and reshape ourselves as an even stronger institution resistant to new challenges, we developed an innovation plan and revamped our change and innovation programs to accelerate our transformation going forward.

In order to focus on our key role as a policy finance institution, we continued to promote facility investments through the Corporate Investment Stimulus Program, create a start-up entrepreneurial ecosystem with Global Partnership Funds and the KDB Investors Relations (IR) Center, and facilitate the growth of medium-sized businesses. Furthermore, to solidify the groundwork for our future advancement, we developed financial belts in Southeast Asia and China ranging from Indonesia to India and from mainland China to Hong Kong, in addition to posting figures of USD 2.2 billion for arranging overseas project finance (PF) transactions during the past year.

These efforts have led to the encouraging outcome of our credit rating being raised by Moody's in 2015, followed by S&P in 2016, whose decisions were heavily influenced by our status as Korea's leading financial institution as well as substantial capital resources needed to persevere through recent challenges.

Respected Customers,

In 2017, the macro economy is expected to continue to face difficulties as volatility in financial markets is likely to increase. To effectively respond to these external pressures, KDB plans to strengthen our integral role as we raise our profile and pursue a brighter future by rejuvenating the Korean economy and leading the way towards the revitalization of future growth sector development.

First, to reinvigorate Korea's future engines of growth, we will strive to create a constructive economic cycle and encourage corporate reorganization in line with the Corporate Revitalization Act to enhance the competitiveness of each company.

We also plan to increase our supply of funds to promising start-ups and medium-sized businesses, and provide financial services tailored to each company's growth.

Moreover, we intend to actively foster advanced technologies in the rapidly growing fourth industrial revolution covering artificial intelligence (AI), virtual reality (VR) and Internet of Things (IoT).

Second, to lead the advancement of Korea's financial industry, we will continue to look to diversify our financial product range to provide more efficient services, especially in the overseas PF sector, as we try to actively pursue new projects and promote the active involvement of Korean institutions.

We also plan to develop and penetrate new markets as we strengthen our positioning in the Southeast Asian financial belt and look for new opportunities in other emerging markets.

In addition, we will continue to coordinate with other multilateral organizations and international financial institutions such as the World Bank, with which we cooperated in the creation of a new private equity fund, and the Green Climate Fund, which designated KDB as its first Korean accredited entity.

Third, to lay a solid foundation for our sustainable growth, we will continue to reform our organization and improve our corporate governance based on our innovation plan announced in October 2016. We also aim to achieve overall systematic upgrades throughout the Bank to enhance our competitiveness by continually upgrading core infrastructure, exemplified by the introduction of a new information technology system.

To deal appropriately with potential changes in the financial environment, we will continue to diligently monitor companies and subsidiaries that we have invested in, and intensify our risk management activities, to ultimately heighten our financial soundness.

Distinguished Customers,

With endless innovation, we will aspire to make 2017 a new chapter of the "KDB Success Story". Every one of our staff and board members will strive to enhance our organizational strength with a sense of responsibility and ownership, and ensure our actions are governed by professionalism, in order to make meaningful strides towards realizing our vision of becoming the "Financial Engine of Korea's Takeoff, Global KDB".

We ask for your continued support and interest along the way.

Thank you.

Lee, Dong Geol

Chairman & CEO

Korea Development Bank

Board of Directors & Senior Management

KDB strives to create values for the benefit of our stakeholders on the back of responsible and transparent management system enabled by our advanced governance.

Board of Directors

Lee, Dong Geol
Chairman & CEO

Lee, Dai Hyun
Vice Chairman & COO

Shin, Hyung Chul
Auditor

❶ **Lee, Dong Geol** Chairman & CEO / ❷ **Shin, Hi Taek** Independent Director / ❸ **Lee, Dai Hyun** Vice Chairman & COO / ❹ **Sung, Jong Sub** Independent Director / ❺ **Shin, Hyung Chul** Auditor / ❻ **Chung, Hay Young** Independent Director

Senior Management - Division Heads

Lim, Maeng Ho
Creative & Growth Sector Banking Division

Sung, Joo Yung
Corporate Banking Division

Cho, Seung Hyun
International Business Division

Jun, Young Sam
Capital Market Division

Joung, Young Suk
Corporate Restructuring Division

Lim, Hae Jin
Credit Review Division

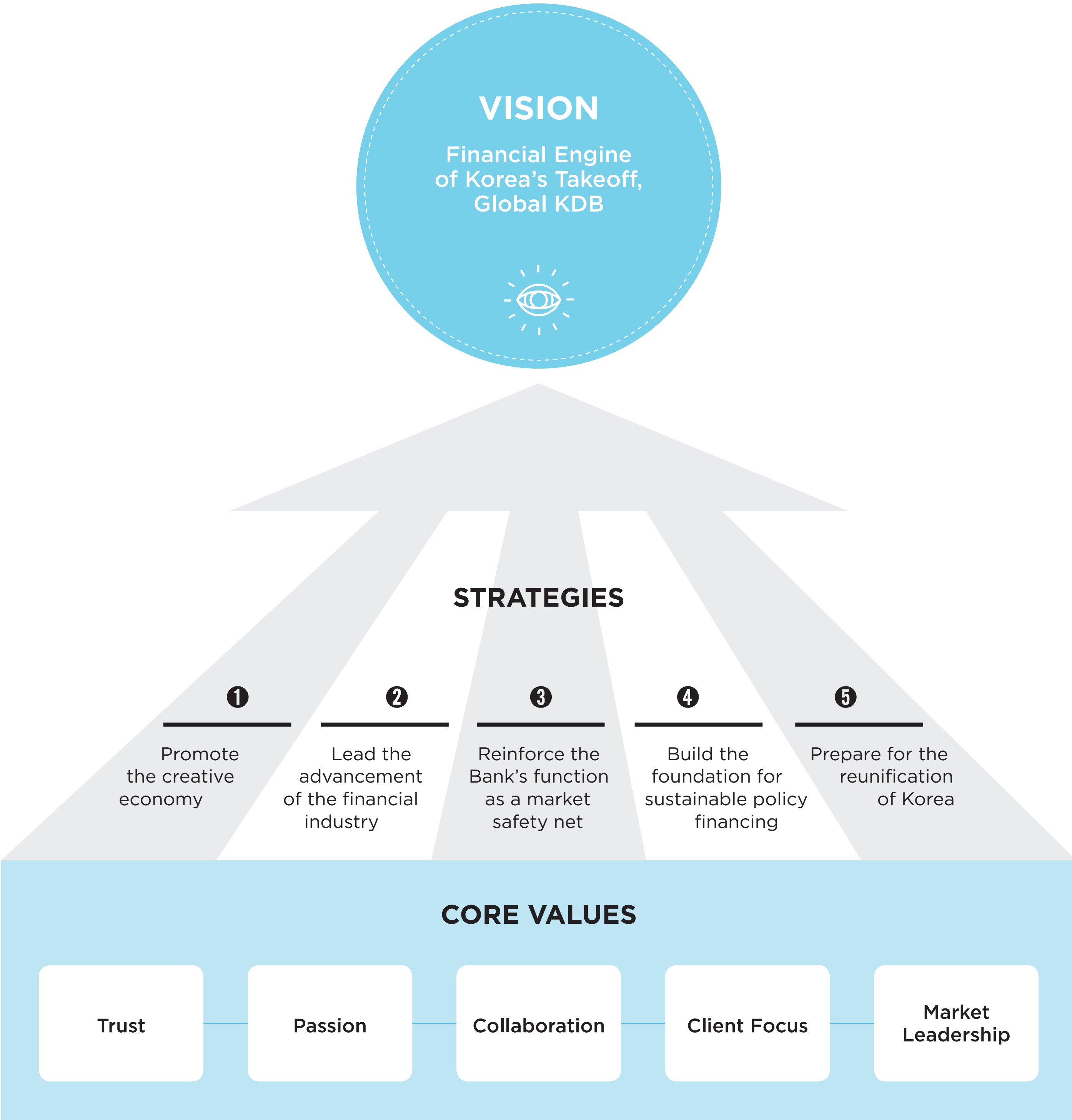
Kim, Jae Ik
Risk Management Division

Kim, Keon Yeol
Strategy & Planning Division

Baek, In Gyun
Business Administration Division

Vision & Strategy

As a leading financial institution in Korea, KDB has laid the foundation for the development of the national economy and the financial industry in each stage of Korea's economic progress. KDB draws on the competence of all its employees in order to realize its vision of being the 'Financial Engine of Korea's Takeoff, Global KDB'.



Vision

KDB's mission is to contribute to the financial industry and national economy of Korea. To this end, KDB established its mid- to long-term vision as being the 'Financial Engine of Korea's Takeoff, Global KDB'. In pursuit of our vision, KDB is to play a key role in the economic progress of Korea by facilitating the development of the real economy, as well as to lead the future growth of the national economy by spearheading the advancement of the financial industry.

Strategies

KDB is committed to achieving its vision based on the five mid- to long-term management strategies as follows:

❶ **Promote the creative economy:** We will expand our array of financial services to innovative and technologically advanced start-ups as a way to foster future growth industries and sustain the growth momentum of the national economy.

❷ **Lead the advancement of the financial industry:** We will discover new financial inroads for Korean financial institutions by spearheading financial expertise and globalization, and play a leadership role in the advancement of the Korean financial industry.

❸ **Reinforce the Bank's function as a market safety net:** We will bolster our market safety net function as Korea's representative financial institution, by preemptively taking necessary measures for companies and industries amid the global trend of slow growth and continued volatility.

❹ **Build the foundation for sustainable policy financing:** We will strive to ensure sustainability – a prerequisite for undertaking our role as a leading institution including financial, personnel, organizational and social responsibilities, recognizing the importance of sustainable financing in fulfilling our mission and roles.

❺ **Prepare for the reunification of Korea:** We will build up necessary competencies for the reunification of Korea by researching measures to scale up financial services for pre/post-reunification periods through business cooperation and personnel exchanges with relevant institutions.

Core Values

We share with stakeholders the five core values of trust, passion, collaboration, client focus and market leadership to successfully accomplish our vision and mid- to long-term strategies.

- **Trust:** Build trust and earn the respect of clients and colleagues by going above and beyond our social responsibilities as a financial institution
- **Passion:** Stay passionate and positive as we lead the development of the financial industry and facilitate the growth of the real economy
- **Collaboration:** Ensure high-level cooperation among departments and employees to provide advanced financial services
- **Client Focus:** Understand diverse client demands to promote the success of our customers
- **Market Leadership:** Explore new financial fields based on distinctive competitiveness

Change & Innovation

Pioneer a successful era through change and innovation

KDB's employees continuously pursue change and innovation in accordance with the following **management policy** as our strong foundation to wholeheartedly realize our vision, implement our strategy and practice our core values.

Innovation Management
(Starting anew)

- Initiate decisive changes and innovation driven by enthusiasm
- Cultivate a 'must-do' spirit that transcends a 'can-do' spirit
- Practice creative disruptions on a daily basis to improve on old habits

\>> **KDB, a strong bank leading positive changes**

Substantive Management
(Taking responsibility)

- Act with one heart and mind driven by ownership
- Emphasize viability through performance-based organizational management
- Discover growth drivers for the future in capital and global markets

\>> **KDB, Korea's representative sustainable policy finance institution**

Best-in-Class Management
(Acting professionally)

- Continually develop best-in-class products and areas
- Foster experts and adhere to professionalism
- Comply with organizational ethics with an emphasis on honor and reputation

\>> **KDB, creating an exclusive brand and value**

Open Management
(Conveying warmth)

- Guarantee equal opportunities open to all
- Promote personnel equality to properly reward hardworking employees
- Facilitate interactive communication through empathy

\>> **KDB, a vibrant, stable and joyful workplace**

KDB's Innovation Campaign - Overview

"CHANGE KDB! LEVEL UP KDB!" – KDB'S INNOVATION CAMPAIGN

KDB has been initiating internal reforms at a fast pace based on the concepts of change and innovation. Having selected three areas for innovation – 'changes in everyday life', 'communication, cooperation and synergy' and 'social contribution activities', all employees at KDB are thus encouraged to make changes in their daily work habits.

KDB's Innovation Campaign - Framework

Organizational Culture
Strong KDB at the core of change and innovation

GOALS

Formation of DNAs for change	Cultivation of capacities to reach performance of 110%	Fulfillment of social responsibilities

TASKS

Changes in everyday life	Communication, cooperation and synergy	Social contribution activities

- **Changes in everyday life**: Raising efficiency at work, and maintaining a work-life balance
- **Communication, cooperation and synergy**: Creating synergy by facilitating cooperation among employees and departments
- **Social contribution activities**: Volunteering for the community, and raising ethical awareness

We have selected and implemented various targets for the three areas of innovation in each department: upgrading customer service through intensive training; increasing efficiency at work by improving old practices; beefing up efforts for budget management; and diversifying compliance training. These targets are shared among all staff members. We plan to transform ourselves into a 'strong KDB standing at the core of change and innovation' through continued pursuit of our stated goals in 2017.

KDB Youth Board and Opinion Leading Group

Driven by extensive internal innovation, KDB has implemented an open management system as the creative and passionate voices from within take part in giving their ideas for key management agenda and measures for organizational development. Consequently, we are running the KDB Youth Committee consisting of the KDB Youth Board and the Opinion Leading Group, to expand communication by coming up with a ground for sharing core values and to establish a dynamic corporate culture.

KDB Youth Committee

KDB Youth Board
Discussing management agenda and measures for further development

Shifting roles

Opinion Leading Group
Conducting activities to share core values of KDB

Realizing an "Open Management System"

Establishing a "Dynamic Corporate Culture"

- **KDB Youth Board**: Suggesting opinions to the management on pending agenda for the Bank and measures for further development, such as holding regular discussion sessions more than once every quarter and organizing town hall meetings with the management for different agenda
- **Opinion Leading Group**: Sharing core values of KDB and coming up with a ground for inter-generational communication, including mentoring for new employees and participating in the Trust Chain Program*

* A program exclusive to KDB launched in 2016 to ensure communication through cohesive mentoring by forming a chain per generation/job rank, thus forming a flexible corporate culture in each generation and spreading empathy, enhancing their passion through joint activities and establishing trust by organizing seminars to improve the corporate culture

2016 Key Achievements

1 Bolstered momentum for economic recovery

- Continued to strive for economic revitalization by providing **KRW 61.7 trillion to 8,180 corporate clients** (number of clients up 2.1% from the previous year)
- Launched a **KRW 2.5 trillion fund to facilitate business realignment** upon the enactment of the Corporate Revitalization Act
- Steadily provided financial services for 58 projects with a total investment of **KRW 3.3 trillion through the Corporate Investment Stimulus Program**

2 Secured future growth engines

- Established a support system among policy finance institutions and launched common criteria for new growth by establishing the **New Growth Engine Industry Policy Finance Center**
- Created an environment for the growth and globalization of start-ups by opening the **KDB IR Center** and operating **'KDB Next Round*'** for the community

  * A market-oriented start-up platform to match businesses with investors by providing companies with opportunities to attract investment, and investors with appropriate investment opportunities

- Fostered future growth investment through creation of **indirect investment funds worth KRW 2.5 trillion** (including capital investment from KDB worth KRW 0.9 trillion), and provided customized technology financing for tech-savvy companies equipped with leading technology and patents

3 Led entry into overseas markets

- Expanded overseas investment by launching comprehensive partnerships with international organizations, including certification from the **Green Climate Fund (GCF)** and the creation of the **KDB-IFC Emerging Asia Fund**
- Promoted the entry of domestic start-ups into the global market by attracting overseas venture capital through the formation of the **Global Partnership Fund III**
- Served as a financial partner when companies penetrate overseas markets by establishing the **Southeast Asian Financial Belt** connecting countries from India to Indonesia, and increased the volume of financial arrangements for overseas PF to **KRW 2.2 billion for 24 projects in 14 countries**

Management Plans for 2017

KDB plans to fulfill the following three roles amid increased economic uncertainty and volatility both domestically and globally.

Committed to Overcome Rising Challenges

Against this backdrop, we will strengthen ourselves to overcome external volatility based on the following four strategies in 2017.

STRATEGIES

❶ **Serve as a financial engine for national economic revival:** strengthen policy financing roles to counter changes in the economic environment

❷ **Foster a Global KDB:** explore new markets to expand the horizons of finance and industries, while facilitating overseas expansion of domestic companies

❸ **Become a strong player in capital markets:** differentiate qualitatively the roles played by KDB through new products and services

❹ **Create a transformative and innovative KDB:** reinforce fundamentals by pursuing organizational and systemic upgrades

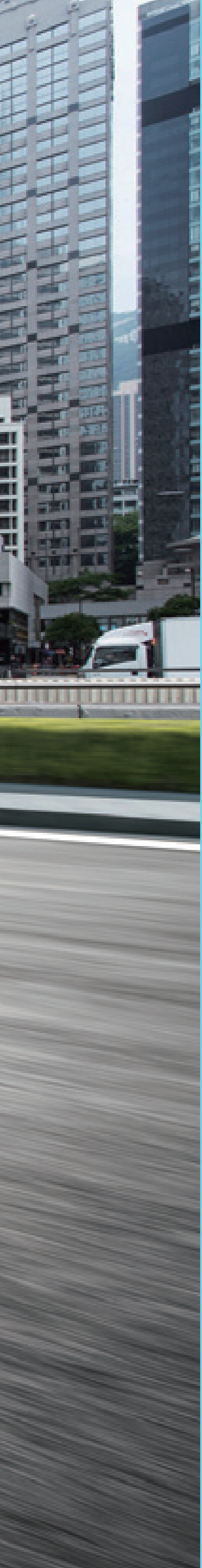
KDB ROLES

❶ Strengthen our competencies to invigorate the national economy, and preemptively respond to challenges in the external environment

❷ Introduce innovative products by leveraging our capital market expertise, and expand financial boundaries to explore new markets

❸ Ensure solid responsiveness to absorb external impacts

BUSINESS REVIEW



In the midst of
difficult circumstances,
we focused all of our
efforts on facilitating the
development of the
Korean economy in 2016.
We strived to reduce
uncertainties in the
national economy and
focused our competencies to
foster future growth engines.
Moreover, we aimed to
accelerate changes and
innovations by putting in
motion groundbreaking
plans for a stronger KDB
unassailable to arising
challenges.

Corporate Banking & Restructuring

Corporate Banking

Review of 2016

KDB proactively facilitates preemptive corporate structural adjustment and business realignment as Korea’s leading financial institution, while providing customized financial services through a wide range of financial products.

In 2016, many enterprises in Korea reported higher volatility due to stronger political and economic uncertainties, while many lower credit companies confronted greater difficulties in financing, thus intensifying instability in the financial market.

Accordingly, KDB encouraged companies struggling due to a temporary shortage in liquidity to engage in preemptive restructuring by implementing self-rescue plans. KDB also provided effective financial measures based on systematic risk management including instigation of frequent liquidity monitoring and reviews, striving to counter risks so that a crisis involving a few companies does not spread throughout the economy.

Moreover, KDB has been at the forefront of ensuring that large enterprises and medium-sized businesses achieve shared growth in a balanced manner by inducing and assisting business realignment for business groups to strengthen core competencies and secure new growth engines, while expanding our coverage by discovering promising new medium-sized businesses and facilitating their development.

In 2016, the total amount of funds supplied by KDB stood at KRW 61.7 trillion, among which KRW 37.4 trillion was extended to encourage the development of SMEs and MEs, approximately 60.6% of the total amount. In particular, KDB extended KRW 3.3 trillion and KRW 0.4 trillion through the ‘Corporate Investment Stimulus Program’ and the ‘Mutual Growth Fund’, respectively, created to facilitate growth for SMEs and MEs. KDB also newly established an SME and ME exclusive lending program worth KRW 1.0 trillion. Furthermore, we launched the New Growth Engine Industry Policy Finance Center as a system to foster future growth engine industries based on the policies set forth by the Financial Services Commission. Moreover, we took part in the establishment of the Korea Shipping and Maritime Transportation to enhance competitiveness in the shipping industry and secured a 50.0% equity stake.

Funds supplied to MEs*

(Unit: KRW trillion)

*MEs: Companies that neither fall under the legally defined scope of SMEs nor are affiliated to conglomerates restricted from cross-shareholdings

Plans for 2017

In 2017, volatility in business performance is expected to rise due to increased uncertainties at home and abroad, which is likely to contract investments. Moreover, financial demands on R&D, M&A and business realignment will gradually rise to ensure that future growth engines are secured. Therefore, the role of the public sector will be expanded to boost the economy, requiring enhanced competencies.

Therefore, KDB plans to proactively make investments in business realignment and the exploration of new businesses for group companies, while securing high quality assets by fostering the development of SMEs and MEs. Moreover, KDB will fulfill its inherent role by nurturing industrial innovation and the restoration of economic vitality. We will strive to facilitate advanced technologies in the rapidly growing fourth industrial revolution and promote future growth industries.

Customized programs for SMEs and MEs

On-lending

On-lending is one of Korea's representative policy finance programs. When financial intermediaries, such as commercial banks in Korea, request financial funds by selecting targeted SMEs and MEs, KDB supplies long term, low-interest rate relevant funds to those intermediaries, which in turn lend the funds to qualified companies.

KDB supplied a total of KRW 6.3 trillion to 5,385 companies in 2016 through the on-lending program, serving as a springboard for the growth of SMEs and MEs. KDB enabled their stable acquisition of funds by supplying long-term funds with maturity of three years or higher for 56.7% of the total amount of KRW 6.3 trillion.

KDB plans to expand long-term low-interest on-lending loans offered to start-ups and rising companies with promising technology.

On-lending program

KDB → Financial Intermediaries → SMEs and MEs

Corporate Restructuring

Review of 2016

KDB does its utmost to pursue timely normalization of companies undergoing restructuring. In particular, we have performed our safety net function by promptly responding to distress in large group companies, fully aware of their potential impact on the nation's economy.

For example, DongA One Corporation and Korea Flour Mills applied for a workout with the creditors due to a shortage in liquidity at the end of 2015, but normalized their businesses at the earliest date possible, within three months from the initiation of the workout, thanks to a successful M&A following injection of additional investments from the private sector.

In addition, KDB successfully completed normalization of Dongbu Corporation, which started its corporate reorganization in 2014, through a third-party M&A at the end of 2016 by proactively seeking investors and closely cooperating with relevant authorities.

Moreover, KDB launched an Investment Company Management Committee, strengthening its management of non-financial investment companies, and completed the equity sell-off of 96 non-financial investment companies in 2016.

Plans for 2017

In 2017, KDB plans to continue to play a safety net function in the market, while providing financial means to help companies successfully normalize their businesses at the earliest time possible by initiating measures based on disciplined corporate restructuring.

Moreover, we will actively seek to implement preemptive restructuring by encouraging voluntary corporate structural realignment and financial improvement. To this end, we will make use of our accumulated know-how in restructuring and engage our specialized workforce.

KDB will facilitate distressed companies to continuously implement prompt and efficient restructuring procedures to help them recover swiftly as we strive to enhance the national economy and ensure renewed growth throughout industries.

Investment Banking

Debt Capital Market

Review of 2016

KDB is the only bank in Korea with the license to arrange domestic corporate bond issuances. KDB also maintains a leading position in arranging and underwriting securities issuances, providing advisory services in structured finance and arranging syndicated loans in both KRW and foreign currencies.

In 2016, KDB arranged the issuance of Arirang bonds by China Eastern Airlines (KRW 175.0 billion) and by Nomura International Funding (KRW 120.0 billion), providing opportunities for domestic institutional investors to invest in foreign high-quality issuers. This was the first time a Chinese company issued Arirang bonds, while Nomura International Funding also successfully issued Arirang bonds with KDB's arrangement for two consecutive years starting in 2015.

Moreover, KDB continued arranging the issuance of international bonds for domestic institutions such as the Korea National Oil Corporation and the government of the Republic of Korea, and assisted such institutions to smoothly procure foreign funds. KDB also served as a stepping-stone for competitive medium-sized enterprises to advance into overseas markets by arranging syndicated loans for companies investing in overseas businesses. In particular, KDB ranked first in domestic syndicated loan arrangements (KRW and foreign currency combined) based on the Bloomberg League Table for eight consecutive years since 2009, with arrangements totaling USD 9.1 billion in 2016.

KDB also provided financing solutions for companies in need of structural improvement and incorporated structured finance solutions to ease financial risks, based on in-depth analysis of financial conditions of affiliated entities.

Bloomberg

No.1

in domestic syndicated loan arrangements for eight consecutive years

Plans for 2017

We plan to accelerate our entry into overseas markets in 2017 to expand the scope of our role in the issuance market. Specifically, we plan to arrange the issuance of Arirang bonds for global entities including European institutions, potentially packaged with KRW currency swaps, and the issuance of international bonds for domestic companies which seek overseas financing. We will also play the role of a market maker for vulnerable sectors by arranging syndicated loans for companies in need, and continuously increase capital market presence for medium-sized enterprises by providing comprehensive financial products and services.

Trading

Review of 2016

We were a 'market pioneer' and created an initial market in Korea during the 1980s when foreign exchange and derivatives products were scarce in Korea. Currently, we not only handle general derivatives trading operations but also are capable of providing foreign exchange and derivatives solutions to customers unable to utilize hedging products due to credit ratings and other issues. As such, we endeavor to provide optimal solutions to respective customers to adhere to their interests and enhance our reputation in the markets.

The year 2016 witnessed a continuum of global economic uncertainties due to the modest economic turnaround in the U.S., anxiety over the Chinese financial market, Brexit in Europe, low oil prices and sluggish global trade. The markets for foreign exchange and derivative financial instruments were also hit hard. Notwithstanding such challenges in the market environment, we continued to see an expansion in transaction volumes by offering clients diverse products combined with proactive marketing and thorough market analysis.

In particular, the demand for derivatives transactions associated with issuances and purchases of overseas securities by financial institutions and public agencies was keenly explored as we significantly improved our position in the category. We also steadily scaled up the balance of derivatives products in our portfolio, and our share of the KRW/RMB direct trading market increased from 6.1% in 2015 to 9.4% in 2016.

Consequently, KDB's reputation as a leader in the Korean derivatives market was recognized by renowned overseas institutions, being awarded 'House of the Year, Korea' by Asia Risk magazine for three consecutive years starting in 2012 and also in 2016. KDB was also recognized by The Asian Banker magazine as 'Best Derivatives Provider of the Year in South Korea' in 2015.

Derivatives trading volume
(Unit: KRW trillion)

AsiaRisk Awards 2016

'2016 House of the Year'

Plans for 2017

In 2017, we will do our utmost to expand our product lineup by diversifying the range of structured products offered, and improve product customization, which, in turn, facilitate customer uptake and inter-bank transactions in a virtuous cycle. We will continue to attract new clients with a focus on expanding services targeting financial institutions, public institutions and medium-sized enterprises. Furthermore, we will continue to lead domestic banks as Korea's largest derivatives house and provide products tailored to further alleviate foreign exchange risks faced by SMEs and MEs.

M&A

Review of 2016

The M&A market in 2016 faced significantly reduced transaction scale, mostly attributable to the sluggish economy and drop in consumer sentiment. Nevertheless, KDB successfully carried out advisory services on the sell-off of companies undergoing corporate restructuring, such as Kumho Industrial and Ssangyong Cement Industrial. Our financing arrangement services also intensified as we arranged various transactions such as Hanwha Techwin's acquisition financing of Doosan DST, MBK's acquisition financing of Doosan Machine Tools and Kumho Buslines' refinancing of corporate loans.

The landmark deal for 2016 was the majority ownership sell-off of Ssangyong Cement Industrial, previously held by creditors. The deal took place against a macroscopic background of industrial restructuring. Although the deal was challenged by the second largest shareholder's exercise of management rights and the right of first refusal, we ultimately contributed to the successful recovery of creditor equity acquired through a debt-equity swap whose recovery was deemed to be uncertain over a long period of time.

Plans for 2017

In 2017, we plan to continuously pursue normalization of marginal companies through preemptive and ex-post restructuring, and also provide comprehensive M&A services including advisory and financing arrangement in order to secure continued growth for SMEs and MEs. Moreover, we plan to proactively engage in cross-border M&As to boost expansion for domestic companies through tie-ups with partners overseas.

Venture Capital, Technology Finance & Consulting

Venture Capital

Review of 2016

KDB actively started its venture capital business in 1998 to nurture tech-savvy start-ups. The scope of KDB's role includes investment in equity and equity-linked securities (CB, BW, etc.) and the formation of the Global Partnership Funds* to facilitate overseas expansion of domestic firms. We have conformed to government's initiative to foster new growth industries by expanding direct investment in quaternary industries including bioengineering and information and communication technology (ICT).

In 2016, we established and ran 'KDB Next Round', a market-oriented start-up platform to match start-ups with investors by providing businesses with opportunities to attract investment, and investors with appropriate investment opportunities, thus helping to foster a venture capital ecosystem for companies. We also opened the KDB IR Center (Aug. 16, 2016) for new start-ups to make in-depth IR presentations in front of numerous venture capitalists. We held 25 IR events for 90 firms as a way for start-ups discovered by accelerators and micro venture capitalists to meet with investors from Korea and abroad. Among these, 13 companies successfully acquired follow-up investment worth KRW 35.0 billion.

Plans for 2017

In 2017, we will continue to invest in start-ups to nurture new growth industries and encourage new entrepreneurs to jump-start their business. We will serve as a platform for the qualitative growth of the domestic venture capital ecosystem and promote overseas market entry of domestic companies: making direct investments; expanding IR events through the KDB IR Center; matching start-ups with investors and fostering an investment market for businesses through 'KDB Next Round'; and strengthening the global competitiveness of companies through the Global Partnership Funds. We plan to make prompt investment decisions and seize investment opportunities with venture capital firms, while identifying very early stage start-ups often neglected by private firms through the 'KDB Accelerator Fund'.

Technology Finance

Review of 2016

KDB has long fostered experienced human resources and expertise in the technology finance field which includes evaluation and commercialization of technology. To keep pace with global trends in which intellectual property (IP) and IP-based business have become vital, we launched the Technology Banking Department in September 2012 and became the first Korean financial institution to create

* Please refer to page 31 for more details

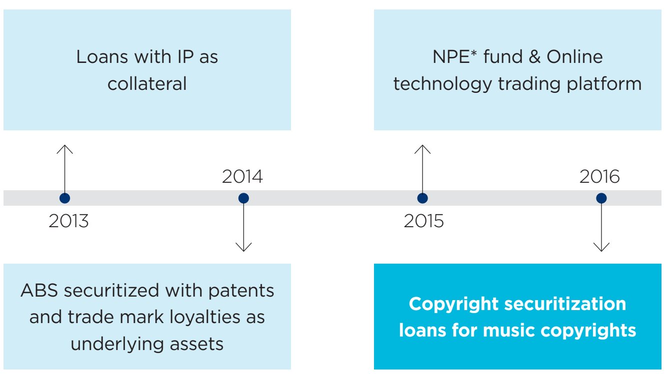
a business unit specializing in technology finance. The department has since developed 'Techno Banking', a multiplex corporate service program that combines financial products such as 'IP financing' with technology trading and technology commercialization consulting. In 2016, we supplied KRW 131.4 billion to companies in relation to Techno Banking, leading the domestic technology financing market.

KDB also implemented copyright securitization loans for current music copyrights and future creations by renowned composers to expand KDB's IP financing of underlying assets centered around patents to copyrights. By doing so, KDB broadened the horizons of manufacturing industry-oriented technology financing to include non-manufacturing sectors such as the cultural content industry. Moreover, KDB jointly set up a specialized fund for investing in enhanced seed sovereignty in 2016 in partnership with the Ministry of Agriculture, Food and Rural Affairs to protect seed sovereignty in Korea, thus pursuing food security and the exploration of potentially prominent industries.

Plans for 2017

Our recent efforts have led our IP-based financial products and assets securitization capabilities in techno banking to position themselves as benchmarking targets for other financial institutions, utilizing KDB's exclusive competencies in an active manner. KDB will continue to strive to carry out its role as a leading bank in global technology financing beyond Korea. We will also fulfill our roles as a market leader in the technology finance market by focusing on securitizing intangible assets and facilitating IP funds.

IP-based financial products history



* NPE (Non-Practicing Entity): A business entity that pursues profit by leveraging IP

Consulting

Review of 2016

Since the launch of the Consulting Service Department in 2003, KDB has carried out over 770 consulting projects in various sectors, including management/finance, public service/development and in-house consulting. In 2016, our key focus in consulting services was to advise companies on growing further and examining their potential for structural improvements.

We signed a Memorandum of Understanding (MOU) with regional governments to foster the growth of specialized local industries, and expanded collaboration with public institutions such as the Korea Institute for Advancement of Technology (KIAT) and Korea Health Industry Development Institute (KHIDI). We also aimed to nurture the semiconductor industry, and to this end, we contributed to facilitating investment and expanding private investment in the semiconductor industry by suggesting measures to boost its competitiveness and providing advice to Korea Semiconductor Industry Associations (KSIA) on setting up a semiconductor growth fund.

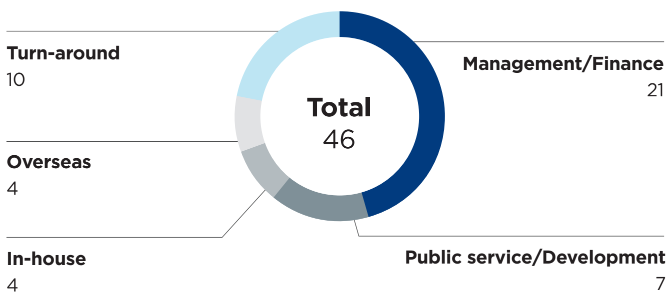
We also fulfilled our advisory role on major issues KDB confronts internally on numerous occasions through in-house consulting. In addition, we conducted management consulting on various medium-sized enterprises and examined measures to take advantage of the Corporate Revitalization Act.

Plans for 2017

We not only provide corporate analysis for companies facing difficulties but also continue to offer turn-around consulting for companies that are growing in scale, thus laying the foundation for domestic companies to make another leap forward. In 2017, we plan to beef up our role as a prominent financial institution for companies that utilize our consulting services to preemptively manage risks, achieve stable growth, and strengthen business cooperation with the public sector.

Number of consulting projects by type

(As of December 31, 2016; Unit: Number of projects)



Alternative Investment

Project Finance

Review of 2016

KDB provides comprehensive PF financial services including financial advisory, financial arrangement and agent bank services, to cater to the needs of sponsors in each phase of PF projects both at home and abroad. KDB has been actively engaging in a wide range of projects from SOC programs, such as road, railroad, harbor, education and environment facility construction, as well as privately-funded power generation, including combined-cycle power, coal-fired power, collective energy and renewable energy facilities. KDB also takes part in local development projects including plant/resources development, construction of industrial and residential complexes, and ship/aircraft financing. Since 1995, KDB has successfully completed financial arrangements worth KRW 119.6 trillion for a total of 725 projects over the span of 22 years.

Despite the economic slowdown with low growth prevalent in all sectors, KDB completed financial arrangements worth KRW 7.3 trillion for 41 projects in the domestic PF market (excluding ships/aircraft) in 2016. In addition, KDB successfully arranged deals worth about KRW 5.8 trillion for 31 orders of ships/aircrafts.

In the SOC sector, we scaled up financial services for new and long-term projects including the project for the Daegok-Sosa Double Track Subway by utilizing the Corporate Investment Stimulus Program. We also arranged financing worth around KRW 3.2 trillion during the year in this sector including refinancing of the investment project for Masan Port, which implemented a restructured financing scheme to normalize its project. These successes have manifested our reputation as Korea's PF market leader.

In the area of regional development, we also fostered national growth and revitalized local economies through financial arrangements worth approximately KRW 4.1 trillion including the redevelopment of the Yongsan International Business District.

Landmark Transaction

Private Investment Project for Daegok-Sosa Double Track Subway

We successfully completed a financial arrangement worth KRW 1.3 trillion with the signing of a financial agreement on April 30, 2016 for the private investment project of the Daegok-Sosa Double Track Subway, which is expected to be the largest of its kind in the SOC sector in 2016. The project covers the 18.36km-long double track subway connecting Daegok in Goyang City - Gimpo Airport - Sosa in Bucheon City, and is the first project of the Korea Infrastructure Investment Platform (KIIP) formed to facilitate investment in SOC. It is also the largest collaborative project (with a total fund worth KRW 732.8 billion) undertaken with KDB Infrastructure Investment Asset Management as a single project. Through this project, KDB played a unique role in the PF market through successful financial arrangement by setting up a financial structure which caters to the needs of both EPC (engineering, procurement, construction) companies and financial institutions.

Plans for 2017

In 2017, we will strive to intensify our public and policy functions by tapping into new domains as a PF market leader and representative policy finance institution.

We will endeavor to implement swift initiation of new large-scale SOC projects and concentrate on boosting economic vitality by facilitating private investment and utilizing the Corporate Investment Stimulus Program.

Moreover, we will look to set up new business models which capitalize on early stage discovery and equity investments in public interest development projects including industrial complexes and urban development based on cooperation with the government, private companies and financial institutions.

Private Equity

Review of 2016

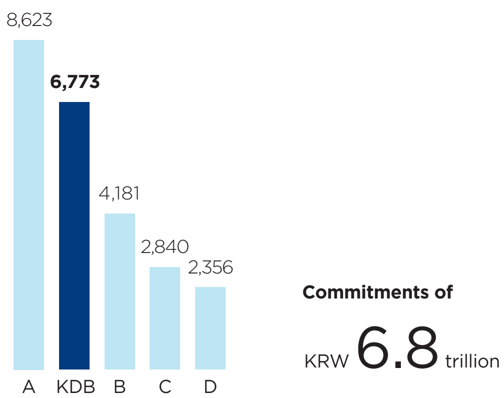
The number of domestic PEFs skyrocketed to 190 in 2016 from 15 in 2005, when PEF formation was first legalized in Korea, amid fierce competition due to heightened market liquidity. In 2016, we ranked second in Korea in terms of general partner (GP) committed capital, with commitments totaling KRW 6.8 trillion. KDB also created the 'KBS (Korea Broadcasting System)-KDB Culture Enrichment Fund' worth KRW 60.0 billion to invest in cultural content both at home and abroad. Moreover, KDB invested a total of KRW 111.8 billion in a variety of areas including providing funds for preemptive restructuring of medium-sized enterprises.

Plans for 2017

In 2017, we will continue to establish a virtuous cycle for policy funds by serving as a market safety net provider. For instance, we will look to take part as a financial investor when mid-sized enterprises expand their businesses and large enterprises acquire an affiliate for business realignment.

KDB's GP commitments

(As of December 31, 2016; Unit: KRW billion; Source: Financial Supervisory Service)



We will also try to maximize the value of existing portfolio companies and enable them to become profitable at an earlier stage. Furthermore, we hope to play the role of a driving force for industries with growth potential by establishing a fund for new growth industries that are part of Industry 4.0 and by expanding investment in such areas.

KBS-KDB Culture Enrichment Fund

- Formation of the Fund: Aug. 31, 2016
- Fund maturity: 5 years
- Fund size: KRW 60.0 billion
- Investment targets: Outstanding content designated by KBS including blockbuster dramas and entertainment shows

Indirect Investment

Review of 2016

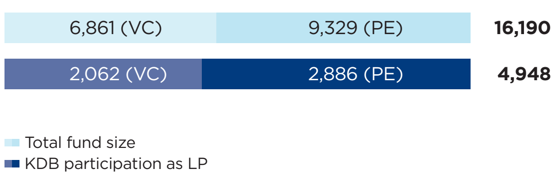
KDB's accumulated indirect investments through venture capital and private equity funds as of the end of 2016 totaled KRW 4.9 trillion across 175 funds, signifying how KDB is playing a leading role as a key investor in the domestic market. Moreover, in 2016, KDB adopted a 'league system' to divide management companies into large companies, medium companies, small companies and rookies, depending on their investment scale, for the first time in Korea, thus promoting more fair evaluation and further competition among management companies. KDB also expanded flexibility in fund management, trying to stay away from existing schemes and practices which resorted to accountability-enhanced management. As such, KDB endeavored to implement market-oriented institutional innovation driven by management companies on the demand side.

Plans for 2017

In 2017, we will continue to implement the 'league system' for management companies and further induce the participation of private capital while responding to diverse investment demands. Moreover, we will participate as a limited partner (LP) with the aim to promote the sustainable growth of respective companies. We will also lay the foundation to facilitate indirect investment by intensifying risk management for assets and generating synergies with other business areas.

Indirect investment volume

(As of December 31, 2016; Unit: KRW billion)



Overseas Business

Expanding Overseas Entry

KDB's overseas network covers 26 cities in 21 countries as of the end of 2016. KDB expanded the network by opening Korea Desks in India and Indonesia in 2016, based on which, we were able to create a financial belt in Southeast Asia connecting the Philippines, Vietnam, Myanmar, India, Thailand, Singapore and Indonesia.

In 2017, we will boost our competitiveness in international financial markets and foster future growth engines through continued overseas market entry.

We will select areas for initial overseas advancement: Southeast Asia provides numerous opportunities for large-scale strategic projects at the national level such as infrastructure investment and resources development; the western regions of China where financial demands for abundant development opportunities are expected; and Latin America where more Korean companies are expected to make inroads following FTAs. We will also open new offices and Korea Desks in a variety of regions as part of our drive to expand our overseas network.

Strengthening Cross-border Presence

Due to the prolonged global economic slowdown and increases in geopolitical risks, the scale of the global syndicated loan market fell to USD 3.9 trillion according to Bloomberg, down 5.4% from the previous year. Nevertheless, KDB was able to report outstanding performance especially with clients in emerging markets such as India and Indonesia. KDB played a major role in expanding business cornerstones as a leader among Korean banks in the global financial market in partnership with international financial institutions by arranging deals for clients such as CCB International Holdings (Hong Kong), PT Federal International Finance (Indonesia), Turkiye Sinai Kalkinma Bankasi (Turkey), China Eastern Airlines (China), Olam International (Singapore), Winson Oil International (Hong Kong) and Doha Bank (Qatar).

Non-Korean cross-border banking assets*

(Unit: USD million)

*Based on assets held by the headquarters and overseas hub networks (Hong Kong, Singapore and London)

Moreover, KDB achieved its best-ever performance figures with financial arrangements worth USD 2.2 billion from 24 transactions in the overseas PF market. KDB ranked first in the PF category in Global Public-Private Partnerships (PPP) released by Dealogic, and sixth in PF arrangements in Asia and Global PPP advisory services. KDB also solidified its reputation as a domestic market leader and a global PF

KDB's project finance 2016 league table ranking

(Unit: USD million)

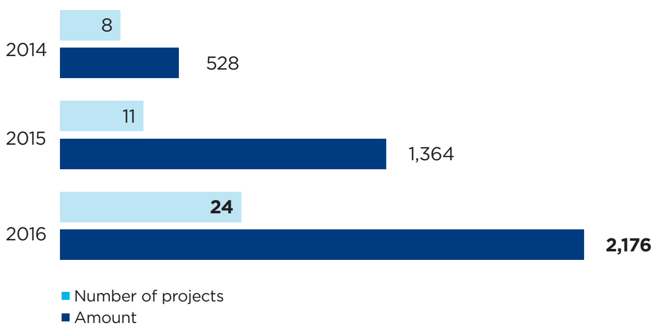
	Rank	Amount
Mandated lead arranger, Global PPP PF	**1st**	**2,952**
Mandated lead arranger, Asia PF	6th	3,067
Financial advisor, Global PPP PF	6th	2,834

Source: dealogic

house, as five overseas projects in 2016 were recognized as 'Deal of the Year' by Project Finance International (PFI). In 2017, we plan to actively expand our overseas reach further by applying our know-how of infrastructure development in developing markets.

Financial arrangements of overseas PF

(Unit: USD million)



Moreover, KDB jointly formed the 'KDB-IFC Emerging Asia Fund' worth USD 200.0 million along with the IFC under the auspices of the World Bank, which invests in infrastructure development projects in numerous emerging markets across Asia. By doing so, KDB plans to facilitate expansion of overseas investment and contribute to regional development in Asia by forming comprehensive partnerships with international organizations.

KDB-IFC Emerging Asia Fund

- Formation of the Fund: Jun. 28, 2016
- Fund maturity: 10 years
- Fund size: USD 200.0 million
- Investment targets: Financial institutions, infrastructure-related companies, manufacturing companies, etc. in developing countries in Asia
  - MOU signed for business cooperation with IFC (Mar. 2016)

Collaborating with Global Partners

In 2016, KDB launched the Global Partnership Fund III to encourage overseas market entry of Korean start-ups. The fund is based on the know-how acquired in starting and running Funds I and II, while aiming to expand global reach by partnering with region-specific venture capital companies in Israel, Taiwan and China as sub-fund management companies. To this end, KDB has pursued qualitative growth of the ecosystem for domestic start-ups by inducing their entries into overseas markets and increasing their opportunities in M&A, while also utilizing investment and value-up strategies of renowned overseas VCs.

Status of the Global Partnership Funds

	Master fund	Sub fund
Fund I	KRW 80.0 billion (KRW 70.0 billion by KDB)	KRW 418.5 billion (5 sub funds with partners in the U.S., U.K. and Hong Kong)
Fund II	KRW 100.0 billion (KRW 90.0 billion by KDB)	KRW 355.0 billion (5 sub funds with partners in the U.S., China and Japan)
Fund III	KRW 120.0 billion (KRW 109.0 billion by KDB)	In progress with KRW 366.0 billion (6 sub funds with partners in Israel, China and Taiwan)

Leading Asian Capital Markets

KDB arranged the issuance of Arirang bonds worth KRW 175.0 billion for China Eastern Airlines Corporation, one of the top three airlines in China, utilizing abundant KRW liquidity in the Korean market and paving the way to contribute to the globalization of the currency. Ultimately, KDB successfully induced a Chinese company to issue bonds in the Korean capital market for the first time ever.

In addition, KDB initiated investment as an RMB Qualified Foreign Institutional Investor (RQFII) worth CNY 500.0 million in August 2016, following continued efforts after becoming the first Korean bank to receive RQFII eligibility and China Interbank Bond Market (CIBM) participation eligibility in 2015.

Trade Finance

KDB provides comprehensive trade finance services to relevant institutions. As Korea's leading financial institution, KDB formed strategic partnerships with major international financial institutions, and engaged in trade finance activities such as executing master agreements with major overseas banks in key geographical zones and providing funds to financial institutions from emerging markets. Despite aggravation of trade conditions due to delays in the global economic turnaround, KDB reported export and import finance transaction volume of USD 30.2 billion, slightly up from USD 29.9 billion in 2015. In 2017, KDB plans to expand the basis for trade finance and build continued momentum by expanding agreements with representative international financial organizations in each region and forging closer ties with overseas banks.

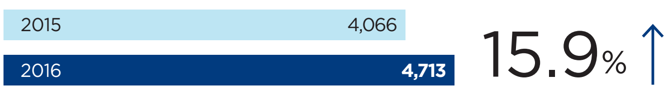
Pension & Trust

Pension

The strength of KDB's pension operations lies in its asset management know-how, accumulated over time as Korea's leading corporate banking specialist.

Pension assets under management

(Unit: KRW billion)



In 2016, pension assets under management (AUM) increased by 15.9% from 2015, ending 2016 at KRW 4.7 trillion. The pension market is expected to grow further based on growing interest in post-retirement finances in an era of aging populations, low-growth and low-interest rate trends.

True to its mission and legacy, KDB is committed to government pension policies and to the stable growth of Korea's retirement pension market. Specifically, KDB will hone its strategies to respond effectively to the fast-evolving retirement pension market as well as boost its pension asset management capabilities.

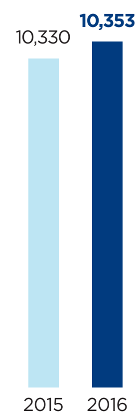
Trust

Diverse assets including money, real estate and debentures are under KDB's custody. As part of KDB's trust business, KDB retains, operates and manages assets, granting them to beneficiaries upon its maturity. In 1989, KDB entered the trust business with money trust products, introducing property trusts and custody products in 2000 and 2003, respectively.

In 2016, trust assets of SMEs and MEs under KDB's management totaled KRW 673.3 billion, up 57.9% year-on-year. As such, KDB served as a financing vehicle for SMEs and MEs by utilizing the trust scheme.

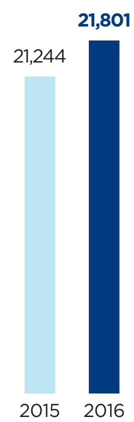
Trust assets balance

(Unit: KRW billion)



Custody balance

(Unit: KRW billion)



In 2017, we will bolster our property trust business by leveraging our strength in corporate banking, and increase the sales of specific money trust products for MEs in line with our plan to facilitate ME deposits.

In the custody business, we plan to increase our participation in hedge fund trusts by intensifying cooperation with prime brokers.

Research & Credit Review

In order to provide future directions to revamp nation's industrial framework by intensifying research, KDB launched the KDB Future Strategy Research Institute in January 2017, realigning the Industry & Technology Research Center, the New Growth Engine Industry Policy Finance Center, the Future Strategy Development Department and the Reunification Business Department.

Moreover, we upgraded our credit review process to apply systematically driven exposure management for respective group companies based on thorough credit analysis.

We plan to conduct in-depth future strategy development, while performing in-depth analysis for key industry areas and exploring promising industries, and also facilitate industrial realignment by suggesting viable roadmaps for various sectors. We will also intensify our research in preparation for Korea's eventual reunification.

Industry & Technology Research

KDB conducts industrial reviews and analysis – industrial research, industrial outlook and issue analysis, technical reviews and competitiveness evaluations for corporate clients – and evaluates the value of intellectual property (IP). Such endeavors support our overall operations by providing a firm groundwork to seamlessly perform our integral roles of improving the industrial structure and developing new growth industries.

In 2016, we suggested directions for our respective businesses and risk management through in-depth analysis of major industries as well as precise industrial evaluations. Moreover, we continuously conductued research on measures to promote new policy finance aligned with measures to foster new industries by launching the New Growth Engine Industry Policy Finance Center. In technical reviews and analysis, we provided advanced technical information such as the 'Technology Competitiveness Map' which presents a detailed picture of the competitiveness of Korea's major industries, including the automobile and pharmaceutical industries, and of the technical structure of their related sub-industries. In addition, we received Level 2 certification from the '2016 Tech Credit Bureau (TCB)' pursuant to plans to establish our own technical credit evaluation system in accordance with the government's initiative to solidify procedure in obtaining technology based financings. We are currently working on acquiring Level 3 certification to expand our technical credit evaluation operations even further.

Implementing industrial analysis and financial services

Improving portfolios in domestic industries

Industry analysis	Financial services
Suggesting directions for industries (including detecting 'early warnings' for relevant industries) based on extensive analysis	Cultivating promising industries and modifying loan portfolio for declining industries

Credit Review

In 2016, KDB strived to strengthen its credit review capabilities to solidify its safety net function as Korea's representative financial institution and enhance sustainability amid continued economic downturn and greater uncertainties. We conducted detailed corporate credit reviews in advance, preemptively monitored group companies and affiliates with higher than normal levels of debt, and identified credit risks of SMEs and MEs whose business units called for intensive management.

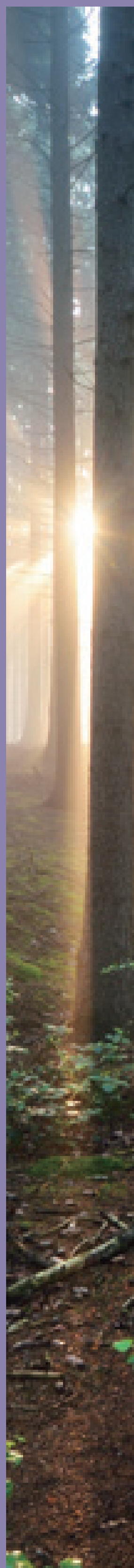
We also boosted our credit line system for group companies and its affiliates whereby mandatory comprehensive review – industrial analysis and financial profile review of major groups – is conducted before the setting of credit line limits for relevant groups. Moreover, we incorporated technical evaluations into our credit review process to enable organic and multi-faceted inspection and evaluation.

Research on Reunification Finance

While pursuing measures to expand KDB's role in reunification finance in preparation for the eventual reunification of Korea, KDB conducted in-depth research on fostering the development of the North Korean economy and facilitating inter-Korean economic cooperation. Despite aggravating external conditions with regards to North Korea during the past year, KDB published a wide range of research reports on reunification finance, the North Korean economy, and industries including the publication of 'North Korea Development', a specialized research journal on North Korea. As such, we continuously strived to prepare for the era of reunification.

We plan to bolster the basis for supporting the government's reunification policy and pursuing a role in North Korea's development. To this end, we will review potential financial issues before and after reunification and the roles to be played by KDB, and conduct in-depth research and analysis for North Korea's economic development and its industries.

SUSTAINABILITY REVIEW



KDB has pursued unwavering innovation with practical, transparent and responsible management by creating sustainable values that match global trends.
As a driver of growth in Korea’s financial industry, we will strive to maintain the trust of the public with professional ethics and a higher sense of integrity.
We will continue to carry out various plans and activities to benefit our customers as a reliable partner and future pioneer.

Liability Management

KDB Bonds

KRW-denominated

Review of 2016

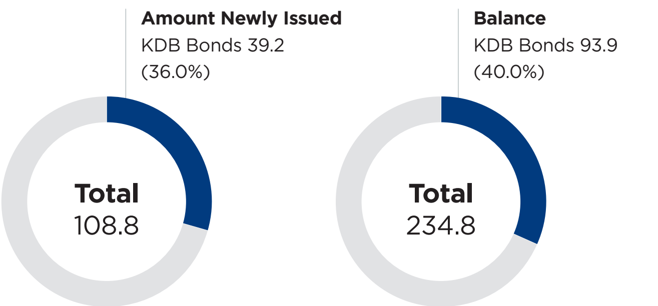
KDB issues Industrial Finance Bonds (KDB Bonds) in KRW and foreign currencies to procure the resources required to supply funds for the promotion of sustainable growth in Korea.

The Korean bond market witnessed a dramatic increase in volatility due to global economic uncertainties and sluggish domestic economic growth rates in 2016. Nevertheless, the amount of KDB Bonds newly issued and the balance in 2016 increased by KRW 5.5 trillion and KRW 1.6 trillion, respectively, to KRW 39.2 trillion and KRW 93.9 trillion. In the Korean bond market, KDB Bonds ranked third in terms of outstanding balance and issuance volume as of the end of 2016, behind Korea Treasury Bonds and Monetary Stabilization Bonds.

In order to reduce funding costs and effectively manage interest rate-associated risks, KDB issued floating-rate notes (FRN) amounting to KRW 8.9 trillion, and diversified its funding sources by issuing structured notes totaling KRW 3.9 trillion. After the adoption of Basel III, KDB also issued subordinated debts (contingent capital securities) worth KRW 1.0 trillion in 2016 following similar moves in 2015, thus contributing to stronger capital soundness. Moreover, KDB was able to achieve a drop in average financing cost of approximately 0.21% compared to 2015 by prudently selecting an appropriate period for issuance and dispersing the volume being issued.

KDB Bonds in domestic bank bond market

(As of December 31, 2016; Unit: KRW trillion)



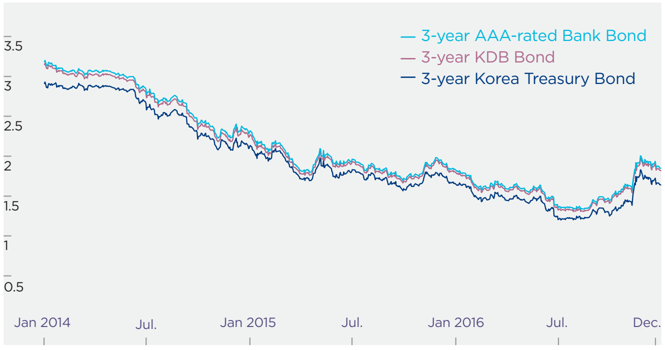
Market interest rate per maturity of major bonds

(As of December 31, 2016; Unit: %)

	1Y	3Y	5Y	10Y
Korea Treasury Bonds	1.562	1.640	1.807	2.092
KDB Bonds	**1.629**	**1.819**	**2.006**	**2.205**
AAA-rated Bank Bonds	1.661	1.850	2.029	2.292

Recent key bond rates trend

(As of December 31, 2016; Unit: %)



Plans for 2017

In 2017, we will continue to maintain flexibility in implementing our funding scheme in response to the scale of our assets and debts, seek to reduce additional financing costs by inducing market adaptability and diversity in financing, and enhance the reputation of KDB Bonds and their associated investor base through market-friendly promotion. We will also strive to secure a stable supply of resources required to develop and foster the industry through timely financing in tandem with the financial market environment and the flow of internal funds.

Foreign currency-denominated

Review of 2016

In 2016, the international capital market faced continual changes due to various factors starting with a dramatic drop of Chinese stock prices in early 2016, Brexit and the U.S. presidential election. Nevertheless, KDB successfully issued global bonds twice over the course of the year by executing timely issuance based on steady market monitoring, choosing appropriate transaction structure and exploring investors proactively. The 10-year global bonds issued in September 2016 achieved a record low interest rate (2.098%) among Korean bonds. KDB also issued Uridashi bonds in favorable conditions with pricing recording 15bps lower than those of comparable USD bonds. KDB also issued USD-denominated Formosa bonds, thus successfully attracting investor interest in the greater China area. In total, we issued approximately USD 4.1 billion in foreign currency-denominated KDB Bonds during 2016. The outstanding balance stood at USD 21.5 billion.

Plans for 2017

In 2017, we plan to continuously diversify our target markets by making inroads into new regions such as Canada and China, and new products such as Green bonds, among others. As market instability will continue in 2017, we will strive to supply liquidity in the market. We will guarantee not only a timely supply of necessary foreign funds to procure matching funds to expand our overseas business in areas such as PF, but also secure attractive interest rates to befit our credit rating of ‘AA’ as an advanced financial institution.

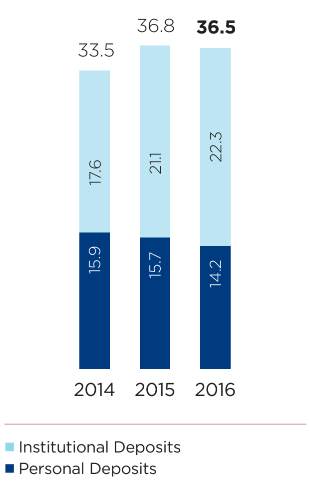
Deposits

KDB maintained a stable funding basis with our deposit business in 2016. By launching ‘New Start KDB Bonds’ as a source of supplementary means for deposits customized for retail customers, we received heavy interest from customers and garnered purchases of approximately KRW 3.0 trillion. In total, we attracted deposits worth KRW 36.5 trillion in 2016.

In 2017, in order to properly supplement KDB Bonds, which are sensitive to market conditions, we plan to continue to pursue a well-balanced funding structure and supply financing resources in a stable manner by facilitating deposits for SMEs, implementing customer-oriented sales strategies and intensifying digital financial services.

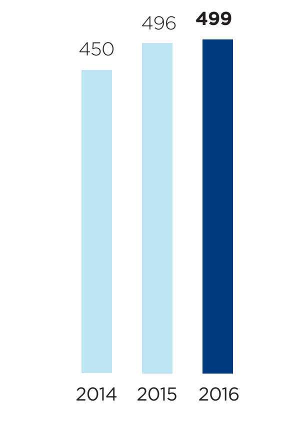
KRW-denominated deposits

(Unit: KRW trillion)



Number of retail customers

(Unit: 1,000 Persons)



Liquidity Management

KDB ensures the stable management of liquidity through diverse management strategies including operations of call loans, Repo, MMF and CP, utilizing surplus funds.

As volatility in the global financial market is expected to increase, likely due to an additional rise of the interest rates in the U.S. as well as concerns over a Brexit, KDB will look to avoid liquidity gaps through preemptive risk management by maintaining an optimal level of liquidity through closely monitoring market conditions and flexibly adapting to supply-and-demand swings.

Against this backdrop, KDB strives for stable management of funds based on diversified investment by product type and maturity structure for appropriate liquidity and risk management.

Risk Management

KDB effectively manages risks under the following principle to respond to the rapidly changing financial environment.

KDB Risk Management Principles

- Risk must be managed in a manner that is independent, comprehensive and uniform bank-wide;
- Risk must be accurately identified, measured and evaluated, and properly managed;
- Risk must be maintained at a level in balance to profit;
- Risk must be diversified to prevent a buildup of assets concentrated in a specific category; and
- Risk must be managed within certain limits or guidelines in order to prevent undue exposure.

Effective Risk Management through Specialized Councils

KDB runs various committees and councils for prompt and effective decision-making on risk management. The Risk Management Committee is KDB's highest consultative body, composed of independent directors with extensive experience and knowledge of finance and economic matters. The committee examines and makes decisions on yearly risk management plans and the setting of total risk limits deemed appropriate for KDB. Chaired by one of the Bank's independent directors, the committee is equipped with a decision-making mechanism that maintains balanced views on critical risk management matters for the Bank.

A total of 20 agenda items were reported to the Risk Management Committee in 2016, including the reporting of the 2016 stress test results and the setting of contingency plans for 2017. The list of agenda items discussed by the Committee is reported to the Board of Directors.

The Risk Management Council, as a subordinate body of the Risk Management Committee, sets distribution limits by sector for the Bank, limits for trading losses and limits for exchange positions within the risk limits set by the Committee. Heads of divisions participate in the Council as members to monitor constant risk variables and fine-tune operations so that risks can be effectively managed in each operation unit.

Key committees and councils for risk management

Board of Directors	
↓ Risk Management Committee	- A committee within the Board of Directors (Chair: independent director, Members: independent and company directors) - Determining total limits for annual internal capital and basic measures for risk management, etc.
↓ Risk Management Council	- A risk management council with division heads (Chair: Vice Chairman, Members: all division heads) - Deciding on the distribution of limits for internal capital by division, and setting industry and national exposure limits, etc.

Risk Management Methodologies

Credit risks

Credit risks refer to possible losses in the event of the failure of counter parties to carry out their obligations. We measure credit risks for the entire Bank and for individual sectors across all assets exposed to risks. We differentiate limits by industry based on analysis of risk levels measured for each industry and loan concentration levels in the Bank, and set limits by country in consideration of the economic scale of each country and associated constraints.

Market risks

Market risks refer to possible losses to the Bank's assets resulting from fluctuations of interest rates, stock prices, foreign exchange rates and other variables. We measure and manage possible losses in trading positions (including positions of securities and derivatives being held for the purpose of acquiring short-term profit margins) due to negative movements of market indices.

We also conduct stress tests to measure the potential scale of losses based on scenarios of wide fluctuations in major market indices over the last three years and the 2008 financial crisis. Moreover, by classifying the severity of market movements into three stages - precautionary, semi-crisis and crisis stages - in accordance with the degree of fluctuation of standard indices, we maintain market risk contingency plans appropriate to each of the three stages.

Interest rate risks

Interest rate risks refer to possible losses that might occur when interest rate movements negatively affect the Bank's financial status. We ensure continual monitoring of interest rate Value at Risk (VaR), which measures the reduction of net present value (NPV) with regular simulations based on scenarios of interest rate fluctuations; and through interest rate Earning at Risk (EaR), which measures the decrease of net interest income.

Liquidity risks

Liquidity risks refer to the possibility of default due to a shortage in funds resulting from a mismatch of financing and management periods or an unexpected financial outflow. In addition, since the 2008 financial crisis, we have considered the quality of liquidity and its ability to withstand cash outflow in contingency situations. KDB completed system setup as financial authorities rolled out a newly implemented Liquidity Coverage Ratio (LCR) for foreign currencies. We established contingency plans for funding in contingency situations by dividing crisis stages based on comprehensive liquidity evaluations, while monitoring liquidity at all times.

Operational risks

Operational risks refer to possible losses which may occur due to misleading internal procedures, employees, systems and external incidents. We analyze why they occurred, quantify each risk level and manage them accordingly.

Through a Control Self Assessment (CSA) program implemented at three-month intervals, we ask employees to assess potential operational risks, associated with their job activities in order to ascertain that such risks are properly managed in accordance with established guidelines. We have developed business continuity plans by job function to guard against possible business disruptions due to disasters, strikes and other emergencies. Yearly mock-up drills are held to ensure that major operations of the Bank can be resumed within a target timeframe in case of an emergency.

Future Plans for Risk Management

KDB established key goals for risks to strengthen its continuous and preemptive risk management system. In particular, aiming to improve soundness indicators from 2017, we launched a unit specializing in Credit Portfolio Management (CPM), and plan to ease loan concentration over the medium and long term, and to establish a portfolio focused on industries that are promising. Moreover, we plan to secure consistency in risk management throughout the Bank through alignment with performance evaluation, while expanding Risk Adjusted Performance Measurement (RAPM) to products and industry levels to broaden the bank-wide perception of risks.

Portfolio management guidelines

Goal setting to improve portfolio quality

<Main consideration points>
- Mid- and long-term industrial and economic outlook
- Risk/Revenue evaluation

↓

Implementing yearly operation plans

<Main consideration points>
- Annual supply of funds target
- Management of targeted portfolios

↓

Setting and distributing specific targets

<Main consideration points>
- Guidance for specific portfolios
- Implementation of asset and liability management directions and scale

Furthermore, as KDB strives to secure the basis for sustainable financing, we plan to enhance risk management efforts by sustaining a sound BIS ratio throughout 2017 and reducing risk appetite compared to the previous year.

Meanwhile, we also plan to preemptively respond to stronger financial regulations worldwide and changes in the market environment. We are currently undergoing systematic upgrades in line with the adoption of the IFRS 9 accounting system, which will be implemented from 2018, and improving calculation models for various risks in tandem with more stringent regulations issued by the Basel Committee.

Key goals for 2017

1. **Strengthen Credit Portfolio Management**
   Ease loan concentration and establish risk distribution portfolios focused on promising industries
2. **Respond to the external regulatory environment and strengthen risk management**
   Secure a stable BIS ratio and strengthen liquidity management based on the implementation of LCR for foreign currencies
3. **Support risk management of our domestic and overseas branches**
   Set up portfolio policies and analyze risk profiles to align risk management with branches
4. **Improve risk management system**
   Establish a system in response to the implementation of IFRS 9 (Jan. 2018), and ensure the IT system is made available upon the implementation of the Trade Repository (TR) and the Central Counterparty (CCP) for over-the-counter derivative transactions

Ethical Management

Compliance

KDB practices compliance management by continuously realigning its anti-corruption efforts and running a wide range of programs to implement its code of conduct. Effective training for employees is provided to boost compliance awareness, and a culture of compliance management has taken root to cultivate a transparent and fair workplace.

Key compliance management activities

In 2016, we launched and supplemented systems to prevent various financial incidents and fraud. The enhanced status of compliance officers and the designation of associated qualifications were reflected in our internal control systems, which are covered in the Act on Corporate Governance of Financial Companies, stipulating the need to strengthen internal controls at financial institutions.

In addition, we implemented recommendations and reviewed case studies, provided by the Anti-Corruption & Civil Rights Commission, to enhance the competitiveness of our anti-corruption efforts.

We also strived to uphold a stronger compliance awareness to match our status as Korea's representative financial institution by cultivating an appropriate mindset through effective and diverse training sessions. We promoted proactive responses to prevent violations of the Improper Solicitation and Graft Act through training and help desk operation during the implementation of the law, which took effect last year. For briberies, an untolerable standard is strictly applied even for a single violation to prevent potential occurrences.

Major compliance management programs

Ethical Management Programs	Explanation
Evaluation/Reward Programs	Evaluate and reward integrity-related tasks which are voluntarily taken on by each department
Securities Report System	Requires employees engaging in loan business to report on their securities accounts biannually
Financial Investment Product Trade Report System	Requires employees engaged in Capital Market Act-defined specific functions to report on their buying and selling of financial investment products, monthly or quarterly
Clean Report Center / No Gift Campaign	Bans gifts and benefits exceeding specified amounts
Solicitation Report System	Requires executives and employees to report on unlawful solicitation from fellow employees and people outside the bank
Compliance Self Check System	Checks the compliance status of all employees biannually
Whistleblowing System	Rewards whistleblowers and ensures their anonymity
Executive Pledge of Ethics	Mandates registered directors to maintain integrity in job performance
Code of Conduct Pledge	Mandates new hires to abide by the pledge
Compliance Training	Trains new hires, employees by job rank and job function
Compliance Monitoring	Monitors compliance including the results of self-inspection by branches and monthly compliance training

Moreover, we bolstered our compliance activities related to anti-laundering operations by establishing a system for evaluating money laundering risks since February 2016 based on a Risk Based Approach (RBA) that matches international standards. We improved our rankings over three consecutive years in the comprehensive evaluation by the Korea Financial Intelligence Unit as we strived to manage the new compliance system in a continuous and stable manner, while raising the level of understanding among employees through training.

Establishing a compliance system suited to Korea's representative policy finance institution

The formulation and revision of the Act on Corporate Governance of Financial Companies and the Banking Act in 2016 has created a stronger need to enhance internal controls and promote transparent management in financial companies. Enactment of the Improper Solicitation and Graft Act has mandated that employees of KDB, a public service-related organization, perform their jobs in a fair and transparent manner and have a stronger compliance mindset. Therefore, we will make steady efforts to establish a compliance system that matches our status as Korea's leading financial institution by further devising and implementing plans to put anti-corruption policies into action.

Consumer Protection

KDB continuously improves its systems to promote mutual growth with customers based on core values – protection of the rights of financial consumers and implementation of consumer-oriented management.

Key activities for consumer protection

We systematized the complaint handling system to foster a customer service mindset throughout the Bank and improve customer satisfaction. In turn, we set up an SMS-based notification service as part of the complaint handling procedure to promptly address customers. Training takes place on handling complaints in conjunction with an analysis of frequent complaints and the distribution of a checklist for the prevention of such issues. In light of these efforts, KDB acquired excellent ratings in all categories in the 'Evaluation of Consumer Protection Status' organized by the Financial Supervisory Service in 2016.

Protection of customers' personal information is also a top priority. We have established standards for each stage of personal information handling, regularly checking the status of such information. In 2016, we set up an 'Inquiry System for Personal Credit Information' so that customers can look up any personal information the Bank uses or provides. We also established a 'Separate Storage System for Information of Inactive Customers' to protect the information of customers whose transactions with the Bank have ended. We have also intensified our personal information protection system. We have ensured continuous management of an e-financial scam prevention and monitoring system to protect consumers from the ever-increasing number of voice phishing scams. By doing so, we dramatically reduced the number of double bank book scams and prevented customer losses.

Bolstering the basis for consumer protection to ensure mutual growth together with customers

We will devise stronger and more solid systems for the mutual development of the Bank and its customers based on consumer trust. To this end, we will strengthen our procedures to protect vulnerable groups such as the elderly and the disabled who are at risk of being neglected in the financial market. Moreover, we will establish a system for constant feedback based on customer opinions so that all employees can share examples of complaint handling and KDB can become a bank that listens more closely to the voices of customers. We will also actively seek solutions for financial consumers by facilitating autonomous resolution of complaints and disputes.

2016 Milestones and performance for consumer protection

Milestones	Performance
Established system for consumer protection in each stage of financial products sales	■ (Planning & Development Stage) Reviewed consumer right infringement when developing and revising new products and services ■ (Sales Stage) Prevented incomplete sales by providing appropriate information on key product features and risks ■ (After Sales Stage) Improved consumer protection levels through on-site reviews of consumer protection status
Disclosed information in accordance with 'Government 3.0' - a new transparent paradigm for government-related operations	■ Expanded our prior disclosure of information items ■ 97 items in 2015 → 108 items in 2016 (+11)
Raised customer satisfaction by collecting customer opinions	■ Collected diverse customer opinions from the Voice of Customer (VOC) system ■ Facilitated customer service training by integrating the results of customer service surveys ■ Received / handled complaints, and conducted follow-up checks
Set-up compliance system in response to global financial regulations	■ Performed customer due diligence and reported cross-border exchanges of financial information upon the implementation of the Foreign Account Tax Compliance Act (FATCA) and the Multilateral Competent Authority Agreement (MCAA)
Performed personal information protection activities	■ Set-up a separate storage system for inactive customers whose transactions with the Bank have ended ■ Established a personal credit information inquiry system ■ Acquired an 'excellent rating' in the Ministry of Government Administration and Home Affairs' analysis of personal information protection management levels
Conducted monitoring to prevent losses from e-financial scams	■ Experienced a dramatic drop in the number of book scams (33 cases in 2015, 20 cases in 2016)

Human Resources Management

KDB seeks to retain forward-looking global talents driven by passion and determination, with the qualifications and sense of ethics needed to lead the development of the Korean financial industry.

Recruitment Using Work Aptitude Evaluations

In order to effectively respond to the expanded scope of work and maintain organizational vitality, we recruit a certain pool of new hires every year. In the recruitment process, we have adopted National Competency Standards (NCS, inclusive of categories such as knowledge, skills and attitude required for job performance categorized by the government by industrial sector and level). Consequently, we have strengthened the evaluation of basic competencies needed in the financial industry and organizational fit. In 2016, we recruited 59 new employees through a multi-phase screening process where NCS was taken into account in each recruitment stage.

Nurturing Talent by Business Segment

To improve individual job competency and thus maximize organizational capability, we have segmented the entirety of our business operations into 172 categories and actively supported the development of individual employee competencies in the category of their choice through our Career Development Program (CDP). The program is divided into the exploration, development and master phases. Employees in the first phase are given chances to strengthen their basic capabilities through CDP and at the same time to broaden their experiences in other job tasks, and as they near the end of the first phase, CDP helps them polish relevant job expertise. In addition, 76 specialized business units are filled with employees selected through a competitive in-house process for the employees to be fostered as specialists.

Training Programs for Development of Global Talent

We offer our employees a wide variety of opportunities to further cultivate relevant expertise or redirect their pursuit of knowledge to areas other than their current field. For this, a career training roadmap curriculum is in place based on job function (24 in total) and career phase (3 in total), and a variety of in-house training courses are offered covering key areas including loans, deposits and foreign exchange transactions. To free its employees from time and location constraints, KDB also offers virtual training programs through KDB e-campus, in partnership with professional training institutions.

Furthermore, there is a wide range of programs geared toward developing skills crucial to tap into new overseas markets; particularly to train regional specialists to be dispatched to Indonesia, Vietnam and China, where KDB

expects an increase in demand for qualified personnel among its workforce. KDB also trains employees as part of its efforts to explore global markets through foreign language training courses offered before and after work hours. Relevant employees are sent to overseas networks in London, Hong Kong, Singapore, Beijing, Shanghai and other places for on-the-job-training linked with global partner institutions.

Apart from regular training, KDB also offers opportunities at home and abroad to those who want to advance their academic aptitude at the graduate level. For employees who joined KDB immediately after high school, KDB operates the KDB Financial University, Korea's first accredited in-company college, also renowned for its outstanding faculty inclusive of experienced KDB employees in the field. KDB also offers leadership courses open to all employees.

To share our financial knowledge and experience with the public at large, we also run open courses at the KDB Academy on seven topics including M&A, PF, PEF and corporate restructuring.

Future Plans for Personnel Management

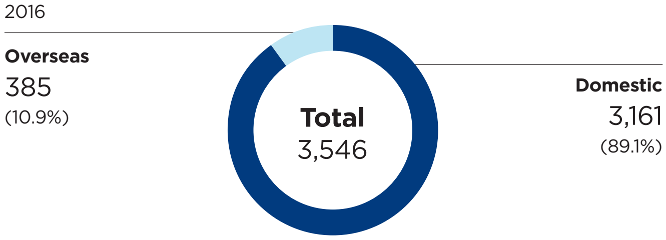
In 2017, KDB plans to implement a more performance-based personnel management system through systematic performance evaluations and the development of key success indicators by job function.

As a representative financial institution, KDB will continue to develop various training programs and offer courses in a wider variety of locations with the aim of nurturing global talents with an ethical mindset, to ensure that our employees lead the development of future growth in Korea and the overseas expansion of domestic businesses.

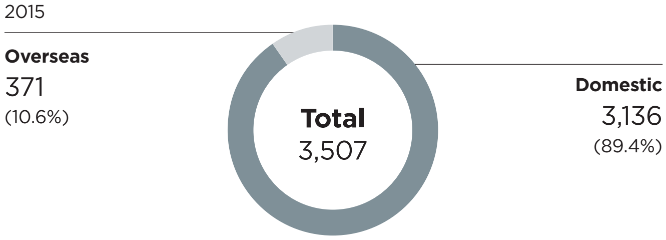
Number of employees

(Unit: Person)

2016



2015



(Source: Public disclosure of management information submitted to Korea Federation of Banks)

Corporate Social Responsibility

All members of KDB are imbued with 'a responsibility to contribute to sustainable growth in society', and strive to make a positive difference in society through social contribution activities.

KDB's Founding Mission:
To contribute to the sound development of the financial industry and the national economy.

1 Socially Responsible Financing

2 Community Healing

3 Knowledge Sharing

KDB's corporate social responsibility (CSR) activities can be categorized into the following three types:

- Conduct socially responsible financing for the development of Korea's industry and economy through funding, financial intermediation and other activities appropriate to KDB's business role;
- Extend a helping hand to various groups in society through various non-financial activities, and promote and maintain a healthy society;
- Share the know-how and experience accumulated from the above activities, and offer society yet another foundation for development, and create positive momentum and value.

Socially Responsible Financing

KDB maintains a keen interest in fostering future growth engines, pursuing balanced growth of companies of various sizes and regions, expanding public infrastructure and improving the environment, while providing socially responsible financial products and services.

2016 Summary

(Unit: KRW billion)

Objectives of funds	Amount supplied by KDB	Number of projects
Invigorating provincial economies and pursuing balanced growth	686	254
Repairing and ramping up social infrastructure	1,462	65
Nurturing environmentally-friendly industry	453	109
Contributing to improving industrial safety	1,473	281

Cases

Socially Responsible Financing

Invigorating provincial economies and pursuing balanced growth

Alleviate imbalances between regions by providing loans through the Provincial Economy Growth Fund to companies relocating from Seoul and the metropolitan area to other regions

Repairing and ramping up social infrastructure

Help improve the quality of life in the community by facilitating the construction of roads, ports and other SOC projects through long-term and large-scale financial solutions such as project financing

Nurturing environmentally-friendly industries

Pursue sustainable growth through a supply of special funding to businesses in industries associated with renewable and environmentally-friendly energy

Contributing to improving industrial safety

Provide funding through the Safe Facility Investment Fund to businesses installing industrial accident prevention facilities and equipment

Case 1.

Attainment of GCF Certification

KDB received certification as an implementing entity at the Board of Directors' meeting of the Green Climate Fund (GCF) in December 2016 for the first time among Korean institutions. The GCF is an international financial entity established to provide financial assistance for developing countries in their efforts to mitigate greenhouse gas emissions and adapt to climate change. A total of USD 10.3 billion has been raised and invested in numerous global projects that match its stated objectives.

KDB's attainment of GCF certification has reaffirmed the Bank's commitment to be a globally competitive financial institution equipped with a management system as well as environmental and social standards on a par with those of international organizations and advanced financial institutions that meet global standards. At the same time, we expect to expand opportunities for financial advisory services and arrangements for climate change projects in developing countries, while transferring Korean-style business models to respond to climate change by utilizing the funds raised through the GCF. Specifically, we plan to implement GCF co-financing projects associated with energy efficiency, including photovoltaics (PV) and waste heat generation as well as waste-to-energy projects, such as domestic and overseas waste power generation, and new and renewable energy initiatives.

Case 2.

Adoption of the Equator Principles

KDB subscribed to the Equator Principles Association for the first time among Korean financial institutions and adopted the 'Equator Principles' – the international norms in the financial industry on environmental and social risk management embedded in projects. The Equator Principles as standards on environmental and social risk management for global financial institutions refer to the principles for actions to be taken by financial institutions and business owners to minimize possible environmental destruction and social conflicts during project execution.

KDB plans to preemptively adopt sustainable finance solutions targeting symbiotic relationships in the economy, environment and society by adopting the Equator Principles, thus elevating its social responsibilities as a policy finance institution and its reputation as Korea's representative global financial institution.

Case 3.

Hospital Development Project in Gaziantep, Turkey

KDB signed a financial agreement related to the 'Gaziantep Hospital Public-Private Partnership (PPP) Project' in Istanbul, Turkey on December 21, 2016. Samsung C&T invested jointly in the project along with Salini Impregilo S.p.A. of Italy and Kayi Insaat Sanayi ve Ticaret A.S. of Turkey. The project aims to construct a hospital with 1,875 beds in Gaziantep, a southern province of Turkey and manage it for 25 years. It is the first-of-its-kind overseas hospital PPP project led by a Korean company. KDB extended a loan of EUR 98.0 million, and invested in an equity share worth EUR 30.0 million through the 'Global Infrastructure Fund III'.

KDB was involved throughout the entire process on behalf of Korean companies – through project development, equity investment, product procurement and facility management. KDB also proactively served as a financial coordinator, generating high added value and contributing to the accelerated entry of Korean companies. These efforts have led KDB to expand our socially responsible financing capabilities internationally to improve the quality of life of global citizens.

Case 4.

Recycling Industry Growth Fund for AT Energy

Bucheon Branch of KDB supplied KRW 2.5 billion for the Recycling Industry Growth Fund to AT Energy Co. Ltd., upon the recommendation of Korea Environmental Industry Technology Institute. AT Energy Co. Ltd., is an SME involved in collecting and incinerating waste generated from construction sites and supplying the industrial steam as recycling energy generated in the process of incineration. The company extended the installation of steam supply pipes – pipes for recycling energy – by utilizing the fund, thereby raising its efficiency in the supply of recycling energy.

Community Healing

Instead of simple donations or one-off volunteer activities, KDB carries out community service activities that involve long-term commitment under the four key themes of education, culture, neighborhood and nation.

Education

KDB has engaged in biannual voluntary activities by supporting employees in providing financial education programs targeting teenagers. Also, since 1985, we have invited children living on remote islands to Seoul to help them experience life in the biggest city in Korea.

Culture

KDB's various Mecenat activities are focused on bringing culture, arts and sports closer to the public. We invite youths from low-income families and disabled teenagers to various cultural events, and provide sponsorships for marathon events.

Community Healing

Neighborhood

KDB Family Volunteer Group

Since 1996, KDB employees and family volunteers have paid regular visits to care facilities including centers for patients in rehab, the hearing impaired and orphans, sharing neighborly love and goodwill. We also provide much-needed supplies for those respective centers every quarter.

Sponsorship targeting those with limited access to welfare benefits

KDB aims to expose welfare blind spots, characterized by an absence of welfare benefits despite a desperate need for financial support, and provide support in the spirit of 'Daddy-Long-Legs'. Therefore, starting with 'Project No.1 – Providing heart disease treatment for a Vietnamese newborn baby' in November 2016, KDB selected and provided support for 'Project No.2 - Giving out free meals to the homeless and opening a study room for students'.

Target	Period	Purpose of Sponsorship
Vietnamese couple	Nov. 2016	Treatment for a child with heart disease
Mindeullae Noodle Restaurant	Dec. 2016	Free meals for the homeless

KDB heard of the sad story of a foreign couple – asking for funds to cover treatment costs related to heart disease for a newborn baby of a Vietnamese couple residing in Korea – aired on TV news in Nov. 2016. We provided the required heart disease treatment costs as sponsor of 'Project No.1 - Daddy-Long-Legs'.

In Dec. 2016, KDB offered donations as the sponsor of 'Project No. 2 - Daddy-Long-Legs' to CEO Seo, Yeong-nam, who is running 10 social welfare projects – a free meal center, a shelter for the underprivileged, a medical clinic, a study room, etc. - for the underprivileged including the homeless and those released from prisons at 'Mindeullae Noodle Restaurant'.

Kimchi Sharing

Every year since 2008, we have held kimchi-making events with our employees, the executives' wives club and the Seoul City Women's Society, and delivered kimchi to the needy. On November 8 and 9, 2016, we made around 12,000 cabbages of kimchi and delivered them to underprivileged households and welfare centers in Seoul.

Supporting Yeouido Park Skating Rink

Starting from 2015, KDB has sponsored the construction of an ice skating rink in Yeouido Park, a project designed to transform an unpopular park in winter into a sports and cultural hotspot for Seoul citizens and a new tourist attraction that can represent Seoul.

Regular Sharing Events

In conjunction with the Yeongdeungpo Senior Welfare Center, we have visited the elderly living alone each year to give out rice and daily necessities. We are engaged in diverse volunteering activities: free meal support and volunteering at a shelter for the elderly; financial donations and volunteering activities on New Year's Day, Korean Thanksgiving and during Family Month; and fundraising and volunteering activities involving all employees at the end of each year.

Blood Drives

Since 1998, KDB has run special blood drives for leukemia patients and delivered blood donation certificates, employee donations and KDB's matching donations to relevant institutions.

Employee Donations

KDB has collected the last four-digit portion of its employees' monthly wages and donated the sum to charity along with KDB's matching contributions.

Seasonal Greetings

We post touching and comforting messages appropriate for each season – spring, summer, autumn and winter – on posters on the walls of the KDB Headquarters building for employees working around Yeouido Park and citizens visiting the park to share our goodwill with people inside and outside the Bank and promote community healing.

Nation

One-Company-for-One-Village & One-Company-for-One-Platoon Campaigns

For 11 years, KDB has run a 'One-Company-for-One-Village' campaign to provide voluntary medical services, hold events promoting purchases of local specialties and conduct volunteer programs providing a helping hand for farmers. We also have a 'One-Company-for-One-Platoon' brotherhood campaign to support military events, invite soldiers to cultural events and encourage employees to experience the importance of national security.

Supporting Youth Start-ups

We identify and nurture start-ups with outstanding ideas in the incubation stages in order to generate new jobs for youths, provide training and mentoring, and organize networking sessions with VCs. As such, we provide support throughout their start-up cycle.

Key programs

'KDB Start-up Program' is a representative program among youth start-up sponsorship projects that has generated about 40 winning teams since we started the first program in 2013 and sponsored funds for their commercialization. 12 teams out of 40 successfully acquired investment from external VCs.

The number of applicant teams has increased each year and in 2016, 457 teams applied to participate in the KDB Start-up Program. We selected 20 teams to participate in the semi-final round, and provided them with a range of start-up training and mentoring programs.

We also provide co-working space in the start-up café which opened in 2015, 'Mini IR' events for would-be entrepreneurs among university students, and sponsorship of projects to promote the spirit of entrepreneurship in youths. As such, we are engaged in numerous efforts to spread start-up culture among Korean youths.

'KDB Start-up Fund' is a project to support start-ups for the underprivileged and marked its 10th anniversary in 2016. The project has utilized funding worth KRW 3.4 billion for 193 entrepreneurs, supporting the self-sufficiency of the socially underprivileged and reinvigorating their willingness to stand tall again.

Another iconic program is a project to support social and economic organizations. This year, we selected 9 outstanding social enterprises, and provided mentoring related to management and marketing as well as funds for their facilities. We also implemented a project to provide goods produced by social enterprises to the underprivileged, while engaging in various promotional activities to improve awareness about related goods.

Knowledge Sharing

KDB shares its accumulated knowledge and experience of success and failure, in the hope that such knowledge transfers will evolve into opportunities for people to reduce the need for trial and error, and to discover a new basis for social development.

KDB e-book center

KDB set up the KDB e-book Center, adding multi-media features to various publications of KDB including economic/financial/industrial analysis reports, raising their utility. By doing so, KDB secured new knowledge-sharing platforms with customers by managing publications for external usage in e-book formats.

Knowledge Sharing

Sharing know-how in policy finance

We have shared our knowledge and experience which we have accumulated over the past 63 years. For example, in 2011, KDB was ultimately selected for the entrustment management of the Development Bank of Mongolia (DBM) after a competitive bidding held by the Mongolian government as part of its national development strategy; and successfully shared our know-how with DBM from 2011 to 2015. During 2016, we shared knowledge and experience of policy financing with government officials and staff from ASEAN countries and with other banks worldwide through the KSP (Knowledge Sharing Program) of the Korean Government and KDB's GOC (Guest Observer Course) in the bid to contribute to the development of the participants' respective industries and economies.

More specifically, 24 delegates from 13 ASEAN countries visited KDB through the KSP and 13 delegates from banks worldwide participated in the GOC.

In particular, government officials from Indonesia and PT SMI's management attended KDB's policy financing seminar, shared experience and visited Yongin-Seoul Expressway, which is a project finance site, to better understand infrastructure construction and operation via Private Participation Investment (PPI).

Building upon our track record and strengths, especially in project financing, we plan to initiate infrastructure projects in developing countries, possibly through cooperation with such international organizations as ADB and AIIB, and transfer Korean-style regional development know-how for projects involving industrial complexes in major emerging countries and development projects of smart cities.

KDB Academy

We have devised training programs in areas of our expertise, namely PF, M&A and restructuring, for lay people. These programs are open to the public and provided via KDB Academy, created to share our advanced knowledge and experience in the financial services business.

KDB IR Center

In Aug. 2016, we opened a state-of-the-art Start-up IR Center on the ground floor of our headquarters for start-ups to promote their businesses and network with industry professionals, creating a solid platform for promising new entrepreneurs. A total of 25 rounds of IR sessions were held, with 90 companies as participants. We plan to facilitate the development of start-ups as a mecca for new growth industries through our 'KDB Next Round', a start-up community. Going forward, we will look to further develop our platform and actively share knowledge among industry participants.

FINANCIAL REVIEW

Management's Discussion & Analysis

The 2016 financial statements prepared by KDB conform to Korean International Financial Reporting Standards (K-IFRS). The 2016 financial statements cover financial performance from January 1 to December 31 of the year, and the financial figures in this Management's Discussion & Analysis (MD&A), unless specifically indicated, are based on consolidated financial statements. For your information, Daewoo Shipbuilding & Marine Engineering Co., Ltd. ("DSME"), which is a subsidiary of the Bank, has restated the consolidated financial statements for the year ended December 31, 2015. Consequently, the Bank has restated the comparative consolidated financial statements for the year ended December 31, 2015. Please refer to Note 53 to the consolidated financial statements for more details.

2016 Review

The global economy in 2016 experienced high volatility in global financial markets due to the expansion of trade protectionism impacted by a slow economic turnaround in the U.S. and the result of the U.S. presidential election, Brexit in Europe, low oil prices and stagnant global trade.

The Korean economy, meanwhile, continued to witness an unfavorable market environment as a result of the economic downturn impacted by several factors: shrinkage in domestic demand related to consumption and construction, corporate and industrial restructuring and political instability.

Accordingly, despite a growth in operating assets, the domestic financial business environment experienced low profitability overall due to low economic growth, low interest rates and increases in bad debt expenses as a result of corporate restructuring.

Against such challenges at home and abroad, KDB strived to reduce uncertainties in the national economy as Korea's representative financial institution. In 2016, KDB encouraged entities suffering from temporary liquidity shortages to undergo preemptive restructuring and strived to ensure that the crisis experienced by specific companies did not spread throughout the economy, by providing effective financing.

Moreover, KDB facilitated investment through the Corporate Investment Promotion Program and formed an ecosystem for venture capital through the Global Partnership Funds. While establishing a global outpost for KDB inclusive of the China Financial Belt connecting mainland China and Hong Kong, as well as the Southeast Asia Financial Belt covering the area from Indonesia to India, KDB strived to secure the basis for future growth by achieving record figures in overseas PF financial arrangement worth USD 2.2 billion.

With KDB's prestige as a Korea's leading financial institution and the high level of capital adequacy to withstand financial risks, KDB achieved the favorable outcome of having its credit rating scaled up one tier by Moody's in 2015 and by S&P in 2016, while BIS capital adequacy ratio also reached 14.86%, from 14.19% in 2015.

2017 Outlook

In 2017, financial instability is likely to expand while capital mobility is expected to increase due to several external factors: the trend toward higher interest rates in the U.S., implementation of Brexit, expansion of political anxiety in Europe and increased conflict among countries due to protectionism. According to the IMF, the global economy is forecast to undergo a gradual recovery of 3.3%.

The domestic economy, meanwhile, is expected to show a gradual growth driven by an improvement in export and investment in plants and facilities amid an economic recovery in major countries. However, recovery in full-fledged domestic demand will likely be delayed as potential corporate insolvency factors increase and household debts expand.

In the domestic financial sector, household debts are likely to emerge as a big threat, and competition will intensify in terms of product competitiveness, interest rates and fees, new customer signups and provision of convenience services. In particular, the spread of fin-tech and the launch of internet-only banks this year are expected to significantly impact the existing competitive landscape in the financial sector.

Amid growing uncertainty and volatility in the economic situation at home and abroad, KDB plans to fulfill its role as a policy bank for the benefit of the national economy based on change and innovation to improve the Bank's fundamentals. KDB will take the lead in the era of Industry 4.0, while revitalizing the economy as a cornerstone for inducing yet another economic leap forward for Korea.

Going forward, KDB will endeavor to successfully implement financial measures based on its stable credit ratings, globally competitive financial expertise and thorough risk management capabilities amid the rapidly changing financial environment.

Income Analysis

Summary Statement of Income

(Unit: KRW billion)

	2016	2015	Change	
			Amount	%
Net operating revenue	1,456.0	3,227.7	(1,771.7)	(54.9)
Net interest income	2,043.7	2,251.0	(207.3)	(9.2)
Non-interest income	(587.7)	976.7	(1,564.4)	(160.2)
Provision for loan loss	2,684.4	2,976.7	(292.3)	(9.8)
G&A expenses	1,925.9	1,342.7	583.2	43.4
Operating income	(3,154.3)	(1,091.7)	(2,062.6)	(188.9)
Non-operating income	1,916.3	4,158.7	(2,242.4)	(53.9)
Income tax expense	1,118.4	1,035.8	82.6	8.0
Profit from discontinued operations	294.8	56.7	238.1	419.9
Net profit	(2,061.6)	2,088.1	(4,149.7)	(198.7)

For KDB's net operating income in 2016, KDB recorded a net loss of KRW 2,062 billion, down KRW 4,150 billion compared to a net gain of KRW 2,088 billion in 2015. Mostly due to the operating losses incurred by subsidiaries, the scope of operating loss increased by KRW 2,063 billion year on year, resulting in an operating loss of KRW 3,154 billion. Non-operating income hit KRW 1,916 billion, down KRW 2,242 billion year on year due to a drop in gains related to investment valuation using the equity method of accounting

Interest Income and NIM

(Unit: KRW billion)

	2016	2015	Change	
			Amount	%
Interest-earning assets (Annual average balance)	167,033	163,800	+3,233	2.0%
Yield rate (%)	2.81	3.19	(0.38)%p	
Interest-bearing liabilities (Annual average balance)	181,179	178,056	+3,123	1.8%
Borrowing rate (%)	2.01	2.23	(0.22)%p	
NIM (%)	0.63	0.77	(0.14)%p	

* Non-consolidated basis

Interest-earning assets and interest-bearing liabilities increased 2.0% and 1.8%, respectively, to KRW 167,033 billion and KRW 181,179 billion, while the yield and borrowing rate decreased 0.38%p and 0.22%p, respectively, to 2.81% and 2.01%. The yield dropped in line with the continued protracted low-interest rate environment including the drop in The Bank of Korea Base Rate. Net interest margin amounted to 0.63%, down 0.14% from 0.77% the previous year, as the decrease in the yield of assets was greater than that of liabilities.

Financial Condition

Summary Statement of Financial Position

(Unit: KRW billion)

	2016	2015	Change	
			Amount	%
Assets	272,837.8	309,316.3	(36,478.5)	(11.8)
Cash & due from banks	9,171.2	7,894.7	1,276.5	16.2
Securities	79,531.6	82,107.2	(2,575.6)	(3.1)
Loans	144,516.2	142,440.2	2,076.0	1.5
Other assets	39,618.8	76,874.2	(37,255.4)	(48.5)
Liabilities	241,818.4	275,202.5	(33,384.1)	(12.1)
Deposits	39,398.1	41,431.5	(2,033.4)	(4.9)
Borrowings	31,203.4	33,576.2	(2,372.8)	(7.1)
Bonds	121,890.1	121,617.0	273.1	0.2
Other liabilities	49,326.8	78,577.8	(29,251.0)	(37.2)
Equity	31,019.4	34,113.8	(3,094.4)	(9.1)
Issued capital	17,543.1	17,235.4	307.7	1.7
Capital surplus	1,236.7	1,579.2	(342.5)	(21.7)
Retained earnings	9,333.7	9,346.2	(12.5)	(0.1)
Capital adjustments	215.2	225.5	(10.3)	(4.6)
Accumulated other comprehensive income	582.5	872.0	(289.5)	(33.2)
Non-controlling interests	2,108.2	4,855.5	(2,747.3)	(56.6)

As of the end of 2016, KDB's assets amounted to KRW 272,838 billion, down 11.8% from the previous year. This is attributable to a drop in other assets: sale of Daewoo Securities and KDB Asset Management, categorized as assets held for sale at the end of the previous year, saw its sell-off procedure completed in 2016, leading to a drop in other assets by KRW 37,255 billion year on year.

KDB's liabilities reached KRW 241,818 billion, down 12.1% year on year, which is attributable to a reduction in other liabilities. Other liabilities amounted to KRW 49,327 billion, down 37.2% from the previous year due to a reduction resulting from the completed sell-off of non-current liabilities held for sale associated with Daewoo Securities and KDB Asset Management.

KDB's issued capital went up with an increase of capital worth KRW 308 billion as KDB issued new shares to the Korean government in 2016. However, due to a reduction in capital surplus, accumulated other comprehensive income and non-controlling interest equity, KDB's equity stood at KRW 31,019 billion, down 9.1% year on year.

Loans

(Unit: KRW billion)

	2016	2015	Change	
			Amount	%
Corporate loans	125,551	124,914	637	0.5
Large enterprises	98,724	97,670	1,054	1.1
SMEs	26,827	27,244	(417)	(1.5)
Household loans	2,486	3,135	(649)	(20.7)
Public and others	1,079	877	202	23.0
Total loans	129,116	128,926	190	0.1

* Non-consolidated basis

For loans, household loans dropped from the previous year, but corporate loans and public loans increased, recording a total loan of KRW 129,116 billion, up 0.1% year on year. Corporate loans made up the biggest portion of all loans, while loans for large enterprises and SMEs stayed at similar levels as the previous year, recording KRW 125,551 billion, up 0.5% year on year.

Funding

(Unit: KRW billion)

	2016	2015	Change	
			Amount	%
Deposits	39,398	41,432	(2,034)	(4.9)
Borrowings	31,203	33,576	(2,373)	(7.1)
Bonds	121,890	121,617	273	0.2

Deposits and borrowings dropped by 4.9% and 7.1%, respectively, year on year, while bonds increased 0.2% from the previous year. As a result, the portion taken up by bonds amongst all funding increased from 61.9% to 63.3% year on year.

Asset Quality[1)]

(Unit: KRW billion)

	2016	2015	Change	
			Amount	%
Total credit	129,116	128,926	190	0.2
Normal	116,116	117,147	(1,031)	(0.9)
Precautionary	8,402	4,452	3,950	88.7
Sub-standard	2,368	5,799	(3,431)	(59.2)
Doubtful	708	889	(181)	(20.4)
Estimated loss	1,522	640	882	137.8
Sub-standard and below loans (NPL)	4,598	7,327	(2,729)	(37.3)
NPL Ratio	3.6%	5.7%		(2.1)%p
Loan loss reserve[2)]	3,981	4,639	(658)	(14.2)
NPL coverage ratio[2)]	86.6%	63.3%		23.3%p

1) Non-consolidated basis
2) Excluding regulatory reserves for loan losses from the NPL coverage ratio due to the revision of Korean supervision standards

Total credit amounted to KRW 129,116 billion, up 190 billion from the previous year. The volume of total credit increased slightly, while NPL hit KRW 4,598 billion as a result of sell-offs and depreciation, down significantly by 37.3% from the previous year, reducing the NPL ratio from 5.7% in 2015 to 3.6% in 2016.

Loan loss reserves remained at KRW 3,981 billion, down 14.2% from the previous year, but NPL also dropped, with the NPL coverage ratio rising to 86.6%, up 23.3%p from the previous year.

Capital Adequacy

(Unit: %)

	2016	2015	Change (%p)
BIS capital adequacy ratio	14.86	14.19	0.67
Tier 1 ratio	12.78	12.25	0.53

The BIS capital adequacy ratio and Tier 1 ratio of KDB in accordance with Basel III as of the end of 2016 reached 14.86% and 12.78%, respectively, up 0.67%p and 0.53%p from the previous year. The BIS capital amounted to KRW 33,227 billion, down 1.7% from the previous year. Risk-weighted assets stood at KRW 223,661 billion, down 6.2% from the previous year mainly due to the sell-off of Daewoo Securities. The BIS capital adequacy ratio of KDB was well maintained above the minimum requirement of 8%.

Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders
Korea Development Bank

We have audited the accompanying consolidated financial statements of Korea Development Bank (the "Bank") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as of December 31, 2016, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibilities for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

Considering the financial status and special circumstances of Daewoo Shipbuilding & Marine Engineering Co., Ltd. ("DSME"), which is a subsidiary, plans for new funding of creditor banks and the sharing of losses among all stakeholders will have a decisive and significant impact on an assessment of its ability to continue as a going concern. However, we were unable to evaluate the appropriateness of management's use of the going concern assumption due to not obtaining specific and definitive information in regard to the plans. In addtion, due to weaknesses in internal controls related to some purchase transactions, we have been unable to obtain sufficient appropriate audit evidence regarding cost of sales included in other operating expenses. Accordingly, we were unable to determine whether adjustments might have been necessary in respect of the amounts recorded in the consolidated financial statements for DSME.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2016, and of their financial performance and the in cash flows for the year then ended in accordance with Korean Internatonal Financial Reporting Standards.

Emphasis of Matter

As discussed in Note 53 to the consolidated financial statements, DSME, which was the Group's subsidiary, has restated the consolidated financial statements for the year ended December 31, 2015 due to the error of the total estimated cost for construction and etc. As a result, the Group's net assets as of December 31, 2015 increased by KRW 171,417 million and the Group's profit for the year ended December 31, 2015 increased by KRW 334,662 million. Consequently, the Group has restated the comparative consolidated financial statements for the year ended December 31, 2015.

Other Matter

The consolidated financial statements for the year ended December 31, 2015 were audited by KPMG Samjong Accounting Corp. who expressed an unmodified opinion on those statements on April 5, 2016. The consolidated financial statements on which the predecessor auditor expressed an unmodified opinion are not adjusted to reflect adjustment described in Note 53 to the consolidated financial statements, and the comparative consolidated financial statements for the year ended December 31, 2015 are adjusted to reflect such adjustments.

Seoul, Korea
March 30, 2017

This report is effective as of March 30, 2017, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Korea Development Bank and Subsidiaries

Consolidated Statements of Financial Position

As of December 31, 2016 and 2015

(In millions of won)	Notes		December 31, 2016	December 31, 2015
Assets				
Cash and due from banks	4,40,49,50,54	₩	9,171,203	7,894,682
Financial assets held for trading	5,49,50,54		2,420,832	2,514,094
Financial assets designated at fair value through profit or loss	6,49,50,54		341,303	431,383
Available-for-sale financial assets	7,40,49,50,54		43,810,626	52,495,740
Held-to-maturity financial assets	8,49,50,54		5,446,948	58,966
Loans	9,42,49,50,54		144,516,214	142,440,231
Derivative financial assets	10,49,50,51,54		6,461,126	6,013,676
Investments in associates	11,52		27,511,908	26,607,053
Property and equipment, net	12,52		6,577,983	7,423,853
Investment property, net	13,52		419,919	303,186
Intangible assets, net	14,52		1,961,882	3,126,493
Deferred tax assets	38		1,440,146	2,050,577
Current tax assets			79,664	224,412
Other assets	15,49,50,54		21,952,746	24,082,808
Assets held for sale	16		725,324	33,649,146
Total assets		₩	272,837,824	309,316,300
Liabilities				
Financial liabilities designated at fair value through profit or loss	17,49,50,54	₩	1,893,077	1,622,618
Deposits	18,49,50,54		39,398,070	41,431,501
Borrowings	19,49,50,54		31,203,363	33,576,215
Debentures	20,49,50,54		121,890,112	121,617,029
Derivative financial liabilities	10,49,50,51,54		6,782,554	6,078,293
Policy reserves	21		14,433,980	12,830,004
Defined benefit liabilities	22		420,597	472,097
Provisions	23		1,585,652	1,351,213
Deferred tax liabilities	38		3,611,809	3,621,793
Current tax liabilities			39,756	50,630
Other liabilities	24,49,50,54		20,444,294	22,269,757
Liabilities held for sale	16		115,090	30,281,386
Total liabilities			241,818,354	275,202,536
Equity				
Issued capital	25		17,543,099	17,235,399
Capital surplus	25		1,236,666	1,579,236
Capital adjustment	25		215,236	225,537
Accumulated other comprehensive income	25		582,540	872,002
Retained earnings	25		9,333,683	9,346,161
(Regulatory reserve for credit losses of ₩1,419,756 million and ₩1,406,498 million as of December 31, 2016 and 2015, respectively)				
(Required provision (reversal) of regulatory reserve for credit losses of (-)₩72,134 million and ₩13,258 million as of December 31, 2016 and 2015, respectively)				
(Planned provision (reversal) of regulatory reserve for credit losses of (-)₩72,134 million and ₩13,258 million as of December 31, 2016 and 2015, respectively)				
Total equity attributable to owners of the parent			28,911,224	29,258,335
Non-controlling interests			2,108,246	4,855,429
Total equity			31,019,470	34,113,764
Total liabilities and equity		₩	272,837,824	309,316,300

Korea Development Bank and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2016 and 2015

(In millions of won, except earnings (loss) per share information)	**Notes**		**2016**	**2015**
Continuing operations:				
Interest income	26	₩	5,777,667	6,304,618
Interest expense	26		(3,733,991)	(4,053,635)
Net interest income	52,53		2,043,676	2,250,983
Net fees and commission income	27		515,460	622,531
Dividend income	28		238,091	219,182
Net gain (loss) on financial assets held for trading	29		(29,832)	1,073
Net gain (loss) on financial instruments designated at fair value through profit or loss	30		74,753	(38,527)
Net gain on available-for-sale financial assets	31		357,150	492,353
Net gain on held-to-maturity financial assets	32		94	21
Net gain (loss) on derivatives	33		62,828	(252,487)
Net foreign currency transaction gain (loss)	34		(171,793)	445,145
Other operating expense, net	35		(1,634,500)	(512,574)
Non-interest income, net	53		(587,749)	976,717
Provision for loan losses	9,53		2,684,406	2,976,697
General and administrative expenses	36,52,53		1,925,843	1,342,676
Operating loss	52		(3,154,322)	(1,091,673)
Gain related to investments in associates	11		2,698,359	4,300,655
Other non-operating income	37		224,388	179,007
Other non-operating expense	37		(1,006,430)	(320,826)
Non-operating income, net	53		1,916,317	4,158,836
Profit (loss) before income taxes	53		(1,238,005)	3,067,163
Income tax expenses	38,53		1,118,404	1,035,787
Profit (loss) from continuing operations	53		(2,356,409)	2,031,376
Discontinued operations:				
Profit from discontinued operations	16,53		294,764	56,710
Profit (loss) for the year	25,53		(2,061,645)	2,088,086
(Profit (loss) for the year adjusted for regulatory reserve for credit losses: (-)₩1,989,511 million and ₩2,074,828 million as of December 31, 2016 and 2015, respectively)				

Korea Development Bank and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss), Continued

For the years ended December 31, 2016 and 2015

(In millions of won, except earnings (loss) per share information)	Notes		2016	2015
Other comprehensive income (loss) for the year, net of tax	25,53			
Items that are or may be reclassified subsequently to profit or loss:				
Valuation loss on available-for-sale financial assets, net		₩	(399,932)	(257,572)
Share of other comprehensive income of associates			(62,771)	419,546
Exchange differences on translation of foreign operations			75,111	35,321
Valuation gain (loss) on cash flow hedge			4,897	(2,976)
Others			(3,580)	2,770
			(386,275)	197,089
Items that will not be reclassified subsequently to profit or loss:				
Remeasurements of defined benefit liabilities			44,942	(44,373)
Revaluation Surplus			(135,844)	225,445
			(90,902)	181,072
			(477,177)	378,161
Total comprehensive income (loss) for the year		₩	(2,538,822)	2,466,247
Profit (loss) attributable to:	25,53			
Owners of the parent		₩	(12,478)	2,070,245
Non-controlling interests			(2,049,167)	17,841
Profit (loss) for the year		₩	(2,061,645)	2,088,086
Total comprehensive income (loss) attributable to:	53			
Owners of the parent		₩	(301,940)	2,253,215
Non-controlling interests			(2,236,882)	213,032
Total comprehensive income (loss) for the year		₩	(2,538,822)	2,466,247
Earnings (loss) per share:	39,53			
Basic and diluted earnings (loss) per share in won		₩	(4)	619
Earnings (loss) per share - Continued operations	39,53			
Basic and diluted earnings (loss) per share in won		₩	(119)	614

Korea Development Bank and Subsidiaries

Consolidated Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

	Attributable to owners of the parent							
(In millions of won)	Issued capital	Capital surplus	Capital adjustment	Accumulated other comprehensive income	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2015 (as previously reported)	₩ 15,180,399	1,621,637	223,694	686,915	7,577,019	25,289,664	4,410,939	29,700,603
Change due to restatement	-	-	-	2,117	(254,923)	(252,806)	-	(252,806)
Balance at January 1, 2015 (as restated)	15,180,399	1,621,637	223,694	689,032	7,322,096	25,036,858	4,410,939	29,447,797
Profit for the year	-	-	-	-	2,070,245	2,070,245	17,841	2,088,086
Valuation loss on available-for-sale financial assets	-	-	-	(255,795)	-	(255,795)	(1,777)	(257,572)
Share of other comprehensive income (loss) of associates	-	-	-	427,673	-	427,673	(8,127)	419,546
Exchange differences on translation of foreign operations	-	-	-	50,791	-	50,791	(15,470)	35,321
Valuation gain (loss) on cash flow hedge	-	-	-	(2,977)	-	(2,977)	1	(2,976)
Remeasurements of defined benefit liabilities	-	-	-	(36,582)	-	(36,582)	(7,791)	(44,373)
Revaluation surplus	-	-	-	-	-	-	225,445	225,445
Others	-	-	-	(140)	-	(140)	2,910	2,770
Total comprehensive income for the year (as restated)	-	-	-	182,970	2,070,245	2,253,215	213,032	2,466,247
Paid-in capital increase	2,055,000	66,571	-	-	-	2,121,571	-	2,121,571
Dividends	-	-	-	-	(46,180)	(46,180)	-	(46,180)
Acquisition on / disposal of interest in subsidiaries while maintain control	-	(108,972)	1,843	-	-	(107,129)	231,458	124,329
Transaction with owners (as restated)	2,055,000	(42,401)	1,843	-	(46,180)	1,968,262	231,458	2,199,720
Balance at December 31, 2015 (as restated)	₩ 17,235,399	1,579,236	225,537	872,002	9,346,161	29,258,335	4,855,429	34,113,764
Balance at January 1, 2016	₩ 17,235,399	1,579,236	225,537	872,002	9,346,161	29,258,335	4,855,429	34,113,764
Loss for the year	-	-	-	-	(12,478)	(12,478)	(2,049,167)	(2,061,645)
Valuation loss on available-for-sale financial assets	-	-	-	(297,334)	-	(297,334)	(102,598)	(399,932)
Share of other comprehensive income (loss) of associates	-	-	-	(65,578)	-	(65,578)	2,807	(62,771)
Exchange differences on translation of foreign operations	-	-	-	46,308	-	46,308	28,803	75,111
Valuation gain on cash flow hedge	-	-	-	4,897	-	4,897	-	4,897
Remeasurements of defined benefit liabilities	-	-	-	27,242	-	27,242	17,700	44,942
Revaluation surplus	-	-	-	(2,825)	-	(2,825)	(133,019)	(135,844)
Others	-	-	-	(2,172)	-	(2,172)	(1,408)	(3,580)
Total comprehensive loss for the year	-	-	-	(289,462)	(12,478)	(301,940)	(2,236,882)	(2,538,822)
Paid-in capital increase	307,700	(1,492)	-	-	-	306,208	-	306,208
Acquisition on / disposal of interest in subsidiaries while maintain control	-	(341,078)	(10,301)	-	-	(351,379)	(510,301)	(861,680)
Transaction with owners	307,700	(342,570)	(10,301)	-	-	(45,171)	(510,301)	(555,472)
Balance at December 31, 2016	₩ 17,543,099	1,236,666	215,236	582,540	9,333,683	28,911,224	2,108,246	31,019,470

Korea Development Bank and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(In millions of won)	Notes		2016	2015
Cash flows from operating activities				
Profit (loss) for the year		₩	(2,356,409)	2,031,376
Adjustments for:				
Income tax expense	38		1,118,404	1,035,787
Interest income	26		(5,777,667)	(6,304,618)
Interest expense	26		3,733,991	4,053,635
Dividend income	28		(238,091)	(219,182)
Loss (gain) on valuation of financial assets held for trading	29		16,433	(15,414)
Loss (gain) on valuation of financial instruments designated at fair value through profit or loss	30		(68,137)	33,942
Gain on disposal of available-for-sale financial assets	31		(655,766)	(745,427)
Impairment loss on available-for-sale financial assets	31		298,616	253,074
Gain on disposal of held-to-maturity financial assets	32		(100)	(52)
Impairment loss on held-to-maturity financial assets	32		6	31
Loss on valuation of derivatives	33		858,879	479,049
Net gain on fair value hedged items	33		(286,003)	(131,803)
Loss (gain) on foreign exchange translation	34		30,371	(458,367)
Gain on disposal of investments in associates	35		(1,438,218)	(172,742)
Impairment loss on investments in associates	11		26,455	97,919
Share of profit of associates	11		(2,724,814)	(4,398,573)
Provision for loan losses	9		2,684,406	2,976,697
Increase (reversal) of provision for payment guarantees	23		(43,437)	226,323
Increase (reversal) of provision for unused commitments	23		(45,714)	48,277
Increase (reversal) of financial guarantee provision	23		(82,202)	96,265
Increase of lawsuit provision	23		97,256	10,143
Increase of other provisions	23		276,914	89,416
Provision for other losses			1,251,365	18,798
Defined benefit costs	22		197,243	111,345
Depreciation of property and equipment	12		183,875	101,720
Loss (gain) on disposal of property and equipment	37		7,899	(1,284)
Impairment loss on property and equipment	37		203,958	1
Depreciation of investment property	13		5,728	4,947
Gain on disposal of investment property	37		(309)	(2,004)
Impairment loss on investment property	37		1,542	-
Amortization of intangible assets	14		276,165	266,463
Loss (gain) on disposal of intangible assets	37		668	(39)
Impairment loss on intangible assets	37		378,931	130,705
Gain on disposal of assets held for sale	37		(7,413)	(70,301)
Impairment loss on assets held for sale	37		52,782	16,622
Other operating income			-	(90,716)
Loss (gain) on share capital repayable on demand	35		(105,450)	22,821
Loss on redemption of debentures	35		590	509
			229,156	(2,536,033)
Changes in operating assets and liabilities:				
Due from banks			709,944	(966,926)
Financial assets held for trading			(17,437)	(105,484)
Financial assets designated at fair value through profit or loss			117,047	(96,863)
Loans			(5,231,885)	(5,583,940)
Derivative financial assets			3,951,446	2,634,965
Other assets			1,258,509	(289,892)
Financial liabilities designated at fair value through profit or loss			395,834	454,565
Deposits			(2,452,276)	2,455,651
Policy reserves			1,603,975	1,427,638
Derivative financial liabilities			(4,664,014)	(3,119,166)
Defined benefit liabilities			(213,904)	(165,047)
Provisions			(60,122)	(309,914)
Other liabilities			(2,146,369)	3,337,424
			(6,749,252)	(326,989)
Income taxes paid			(86,385)	(431,885)
Interest received			6,307,349	6,985,151
Interest paid			(4,047,123)	(3,838,862)
Dividends received			1,166,305	526,999
Net cash provided by (used in) operating activities			(5,536,359)	2,409,757

For the years ended December 31, 2016 and 2015

(In millions of won)	Notes		2016	2015
Cash flows from investing activities				
Disposal of available-for-sale financial assets	7	₩	41,851,143	45,143,686
Acquisition of available-for-sale financial assets	7		(35,834,889)	(48,549,444)
Redemption of held-to-maturity financial assets	8		58,598	7,252
Acquisition of held-to-maturity financial assets	8		(1,208,392)	(26,203)
Disposal of property and equipment	12		246,238	4,638
Acquisition of property and equipment	12		(434,463)	(644,378)
Disposal of investment property	13		3,612	5,169
Disposal of intangible assets	14		20,068	59,155
Acquisition of intangible assets	14		(60,335)	(23,876)
Disposal of assets and liabilities held for sale	16		102,074	98,388
Disposal of investment in associates	11		1,332,689	784,573
Acquisition of investments in associates	11		(606,957)	(1,209,362)
Net cash flows by the change of subsidiaries			2,522,964	1,215,570
Net cash provided by (used in) investing activities			7,992,350	(3,134,832)
Cash flows from financing activities				
Proceeds from borrowings			32,279,910	47,717,163
Repayment of borrowings			(31,796,127)	(47,631,054)
Proceeds from issuance of debentures			75,139,901	37,194,325
Repayment of debentures			(75,996,289)	(38,423,848)
Paid-in capital increase			307,700	55,000
Dividends paid			-	(46,180)
Stock issuance costs			(1,492)	(9,940)
Net cash used in financing activities			(66,397)	(1,144,534)
Effects from changes in foreign currency exchange rate for cash and cash equivalents held			93,435	286,288
Cash flows from discontinued operations			-	129,761
Net increase (decrease) in cash and cash equivalents			2,483,029	(1,453,560)
Cash and cash equivalents at beginning of the year			9,790,584	11,244,144
Cash and cash equivalents at end of the year	47	₩	12,273,613	9,790,584

Korea Development Bank and Subsidiaries

Notes to the Consolidated Financial Statements

As of December 31, 2016 and 2015

1. Reporting Entity

The accompanying consolidated financial statements comprise Korea Development Bank ("KDB" or the "Bank") and its subsidiaries (collectively the "Group"). General information of the Bank and its subsidiaries is stated below.

(1) Controlling company
KDB was established on April 1, 1954, in accordance with *the Korea Development Bank Act* to finance and manage major industrial projects, to expedite industrial development and enhance the national economy.

The Bank is engaged in the banking industry under *the Korea Development Bank Act* and other applicable statutes, and in the fiduciary in accordance with *the Financial Investment Services and Capital Markets Act*.

Korea Finance Corporation (KoFC), the former ultimate parent company, and KDB Financial Group Inc. (KDBFG), the former immediate parent company, were established by spin-offs of divisions of the Bank as of October 28, 2009. KoFC and KDBFG were merged into the Bank, effective as of December 31, 2014. Issued capital is ₩17,543,099 million with 3,508,619,768 shares of issued and outstanding as of December 31, 2016 and the government of the Republic of Korea owns 100% of the Bank's shares.

The Bank's head office is located in 14, Eunhaeng-ro, Yeouido-dong, Yeongdeungpo-gu, Seoul and its service network as of December 31, 2016, is as follows:

	Domestic		Overseas			
	Head Office	Branches	Branches	Subsidiaries	Representative offices	Total
KDB	1	77	9	5	8	100

(2) Consolidated subsidiaries
The Group's equity ownership in its consolidated direct and indirect subsidiaries as of December 31, 2016 and 2015 are summarized as follows:

Investor	Investee	Country	Industry	Fiscal year end	Ownership (%) 2016	Ownership (%) 2015
	Subsidiaries:					
KDB	KDB Asia (HK) Ltd.	Hong Kong	Finance	December	100.00	100.00
	KDB Ireland Ltd.	Ireland	Finance	December	100.00	100.00
	KDB Bank Uzbekistan Ltd.	Uzbekistan	Finance	December	86.34	86.34
	KDB Bank Europe Ltd.	Hungary	Finance	December	100.00	100.00
	Banco KDB Do Brazil S. A.	Brazil	Finance	December	100.00	100.00
	KDB Capital Corporation	Korea	Financial lease	December	99.92	99.92
	KDB Infrastructure Investment Asset Management Co., Ltd.	Korea	Asset management	December	84.16	84.16
	Daewoo Shipbuilding & Marine Engineering Co., Ltd.	Korea	Manufacturing	December	79.04	49.74
	Korea Infrastructure Fund	Korea	Financial investment	December	85.00	85.00
	Korea Education Fund (*2)	Korea	Financial investment	Half-yearly	50.00	50.00
	Korea BTL Fund I (*2)	Korea	Financial investment	Half-yearly	41.67	41.67
	Korea Railroad Fund I (*2)	Korea	Financial investment	Half-yearly	50.00	50.00
	Principals and interests guaranteed trusts (*3)	Korea	Financial investment	December	-	-
	Principals guaranteed trusts (*3)	Korea	Financial investment	December	-	-

As of December 31, 2016 and 2015

1. **Reporting Entity, Continued**

Investor	Investee	Country	Industry	Fiscal year end	Ownership (%) 2016	Ownership (%) 2015
KDB	KDB Venture M&A Private Equity Fund	Korea	Financial investment	December	57.56	57.56
	KDB Turn Around Private Equity Fund (*4)	Korea	Financial investment	December	97.59	100.00
	KDB Consus Value Private Equity Fund	Korea	Financial investment	December	58.08	58.59
	Components & Materials M&A Private Equity Fund	Korea	Financial investment	December	83.33	83.33
	KDB Value Private Equity Fund VI (*4)	Korea	Financial investment	December	99.84	100.00
	KDB Value Private Equity Fund VII (*4)	Korea	Financial investment	December	55.00	55.00
	KDB Sigma Private Equity Fund II (*4)	Korea	Financial investment	December	73.33	73.33
	KDB Asia Private Equity Fund (*4)	Korea	Financial investment	December	65.00	-
	KoFC-KBIC Frontier Champ 2010-5 PEF (*1)	Korea	Financial investment	December	50.00	50.00
	KTB Korea-Australia Global Cooperation Private Equity Fund	Korea	Financial investment	December	95.00	95.00
	KDBC IP Investment Fund 2 (*4)	Korea	Financial investment	December	66.66	66.66
	KoFC-KDBC Pioneer Champ 2010-4 venture investment fund (*4)	Korea	Financial investment	December	100.00	100.00
	K-Five 5th Securitization Specialty Co., Ltd. and 4 others (*6)	Korea	Financial investment	December	-	-
	KIAMCO Road Investment Private Fund Special Asset Trust 2 and 40 beneficiary certificates	Korea	Financial investment	December	-	-
	Sub-subsidiaries:					
KDB Capital Corporation	Vietnam Int'l Leasing Co., Ltd.	Vietnam	Finance	December	81.65	81.65
	KDBC Strategic Industry Investment Fund (*5)	Korea	Financial investment	December	-	60.00
	I-Cube Investment Fund 1 (*4) (*7)	Korea	Financial investment	December	18.70	18.70
	KDBC Biomedical New Growth Investment Fund	Korea	Financial investment	December	60.00	60.00
	KDBC Food Industry Investment Fund 1 (*7)	Korea	Financial investment	December	50.00	50.00
	Stock Collateral Loan MMT 2 (*5)	Korea	Financial investment	December	-	100.00
	Stock Collateral Loan MMT 3	Korea	Financial investment	December	100.00	-
	Special money trust of Apache Golf Bond with Warrant	Korea	Financial investment	December	100.00	100.00
	Special money trust of Indochina Bank's Private Placement Bond No. 1	Korea	Financial investment	December	100.00	100.00

As of December 31, 2016 and 2015

1. **Reporting Entity, Continued**

Investor	Investee	Country	Industry	Fiscal year end	Ownership (%) 2016	2015
KDB Capital Corporation	Special money trust of Indochina Bank's Private Placement Bond No. 2 (*5)	Korea	Financial investment	December	-	100.00
	DongBu Securities MMT	Korea	Financial investment	December	100.00	100.00
	Hanwha Investment & Securities MMT	Korea	Financial investment	December	100.00	100.00
	Kyobo Securities MMT	Korea	Financial investment	December	100.00	100.00
	Mirae Asset Daewoo Securities MMT (*5)	Korea	Financial investment	December	-	100.00
	NH Investment & Securities MMT (*5)	Korea	Financial investment	December	-	100.00
	SK Securities MMT (*5)	Korea	Financial investment	December	-	100.00
	Eugene Investment & Securities MMT (*5)	Korea	Financial investment	December	-	100.00
	KDB Capital the Fifth Securitization Specialty Co., Ltd.	Korea	Financial investment	December	-	-
	KDB Capital the Sixth Securitization Specialty Co., Ltd.	Korea	Financial investment	December	-	-
	KDB Capital the Eighth Securitization Specialty Co., Ltd.	Korea	Financial investment	December	-	-
	DB curious Private Equity Fund L. P.	Korea	Financial investment	December	98.74	-
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	DW Mangalia Heavy Industries S. A.	Rumania	Shipbuilding	December	51.00	51.00
	DSEC Co., Ltd.	Korea	Service, Wholesale	December	70.07	70.07
	Welliv. Corp.	Korea	Service	December	100.00	100.00
	DSME Construction Co., Ltd.	Korea	Civil engineering, Construction	December	99.21	99.18
	DSME Shangdong Co., Ltd.	China	Parts of watercraft manufacturing	December	100.00	100.00
	Shinhan Heavy Industries Co., Ltd.	Korea	Parts of watercraft manufacturing	December	89.22	89.22
	DeWind Co.	USA	Wind power generation	December	100.00	100.00
	Samwoo Heavy Industry Co., Ltd.	Korea	Parts of watercraft manufacturing	December	100.00	100.00
	DK Maritime S. A.	Panama	Shipping industry	December	100.00	100.00
	DSME Oman LLC	Oman	Real-estate developer	December	70.00	70.00
	DSME Far East LLC	Russia	Shipbuilding	December	100.00	100.00
	BIDC Co., Ltd.	Korea	Warehousing, Packaging, Transport	December	51.04	51.04
	DeWind Frisco LLC	USA	Wind power generation	December	100.00	100.00
	DeWind Novus III LLC	USA	Wind power generation	December	100.00	100.00
	LITTLE PRINGLE 1	USA	Wind power generation	December	100.00	100.00

As of December 31, 2016 and 2015

1. Reporting Entity, Continued

Investor	Investee	Country	Industry	Fiscal year end	Ownership (%) 2016	2015
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	LITTLE PRINGLE 2	USA	Wind power generation	December	100.00	100.00
	PT. DSME ENR CEPU	Indonesia	Mine lot investment	December	85.00	85.00
	DeWind Europe Gmbh	Germany	Wind power generation	December	-	100.00
KDB Consus Value Private Equity Fund	KDB Life Insurance Co., Ltd. (*8)	Korea	Finance	December	85.05	85.05
KDB Value Private Equity Fund VI	Daewoo Engineering & Construction Co., Ltd. (*8)	Korea	Construction	December	51.34	51.34
KDBC IP Investment Fund 2	LEDIP Co., Ltd.	Korea	Service	December	99.99	99.99
I-Cube Investment Fund 1	IP-Cube Partners Co., Ltd.	Korea	Service	December	100.00	100.00

(*1) Although the controlling entity holds less than half of the other entity's voting rights, the controlling entity is able to exercise its power as an executive member and affect the other entity's profit, and is exposed to variable returns, and therefore, the other entity is included in the scope of consolidation.
(*2) The investees are financed by the controlling entity and the other subsidiaries and managed by KDB Infrastructure Investments Asset Management Co., Ltd. They are included in the scope of consolidation even though the Group holds less than half of the voting rights because the Group is exposed to variable returns, and has the ability to affect those returns through its power over the investee.
(*3) The investees are included in the scope of consolidation because the investor has power over the investees to control the financial and operating policies of the entity, and is exposed to variable returns through the contract for preservation of principal and interest or principal only.
(*4) Indirect ownership through subsidiaries is included.
(*5) The investees are excluded from the scope of consolidation as of December 31, 2016 due to liquidation.
(*6) The investees are established for the investor's business, or are structured entities that the investor has rights to obtain the majority of the benefits of the investee or retains the majority of the risks related to the investee. The investees are included in the scope of consolidation because the investor has power over the investees to control the financial and operating policies of the entity, exposure or rights to variable returns from its involvement with the investees and the ability to use its power over the investees to affect those returns.
(*7) Those entities have been consolidated even though the investor's ownership is not over 50%, because the investor, as an executive partner, has power over the investees to control the financial and operating policies of the entity, exposure or rights to variable returns from its involvement with the investees and the ability to use its power over the investees to affect those returns.
(*8) The parent company of the sub-subsidiary is an SPE, which is not separately disclosed in the consolidated financial statements.

1. **Reporting Entity, Continued**

(3) Changes in subsidiaries
Subsidiaries that are newly included in the consolidated financial statements and those that are excluded from the consolidated financial statements as of December 31, 2016 are as follows:

(i) Subsidiaries newly included in scope of consolidation as of December 31, 2016

Reason	Subsidiaries
ABCP line of credit and purchase commitment	K-Five 5th Securitization Specialty Co., Ltd.
New establishment and others	KIAMCO Sillim Line Infra Fund, KIAMCO Creative Finance Environment Infra Fund I, Multi-Asset KDB Ocean Value-up Private Fund 6th, KDB Ocean Value-up Private Fund 7th, KDB Asia Private Equity Fund, Multi-Asset Global Partnership Private Fund 3rd, KIAMCO Eurasia Tunnel Private Equity Fund, Multi-Asset KDB Ocean Value-up Private Fund 9th, Multi-Asset KDB Ocean Value-up Private Fund 9-1st, KIAMCO Road Investment Private Fund Special Asset Trust 6

(ii) Subsidiaries excluded from scope of consolidation as of December 31, 2016

Reason	Subsidiaries
Liquidation	KDB Shipping Private Fund SPO-2, KIAMCO KDB Shipping Private Fund PR-3, K-Five 2nd Securitization Specialty Co., Ltd., KDB Sigma Private Equity Fund, K-Five 3rd Securitization Specialty Co., Ltd., Busan Hi Tech Industrial Complex Co., Ltd.
Disposal	Mirae Asset Daewoo Co., Ltd., Multi Asset Global Investments Co., Ltd., KIAMCO Gyeong-gi Railroad Investment Private Equity Fund, KIAMCO KDB Shipping Private Fund PR-4
Losing control	Multi Asset Electronic Power PEF, KDB CAPE Special Asset Trust 1, KDB Growth-ladder Fund
Cancellation	KDB Korea Best Securities Feeder Investment Trust–Equity-CF, KDB Korea Best Hybrid Securities Feeder Investment Trust–Equity-CF, KIAMCO KDB Shipping Private Fund DA-2, Multi-Asset Job-creating Small & Medium Industry Private Equity Fund, Multi-Asset KDB Ocean Value-up Private Fund 1st

As of December 31, 2016 and 2015

1. **Reporting Entity, Continued**

(4) Financial information of subsidiaries
Financial information of subsidiaries included in the consolidated financial statements as of and for the years ended December 31, 2016 and 2015 are as follows:

		2016				
	Assets	Liabilities	Equity	Operating revenue	Net profit (loss)	Total comprehensive income (loss)
KDB Asia (HK) Ltd.	₩ 1,569,053	1,243,081	325,972	98,026	42,615	51,402
KDB Ireland Ltd.	414,379	334,400	79,979	32,977	11,389	14,129
KDB Bank Uzbekistan Ltd.	1,119,482	1,009,157	110,325	43,963	19,777	7,289
KDB Bank Europe Ltd.	890,137	816,885	73,252	85,407	5,923	6,144
Banco KDB Do Brazil S. A.	370,416	301,660	68,756	181,368	29,833	45,351
KDB Capital Corporation	5,028,667	4,290,574	738,093	521,862	115,953	73,952
KDB Infrastructure Investment Asset Management Co., Ltd.	31,833	5,258	26,575	20,518	9,978	9,945
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	15,064,830	14,405,453	659,377	13,839,819	(2,734,139)	(2,709,492)
Korea Infrastructure Fund	11,702	5	11,697	1,043	911	911
Korea Education Fund	136,499	8	136,491	5,440	5,072	5,072
Korea BTL Fund I	499,048	342	498,706	21,173	19,624	19,624
Korea Railroad Fund I	351,810	14	351,796	15,018	14,122	14,122
Principals and interests guaranteed trusts	257,441	249,354	8,087	7,382	(6,754)	(6,754)
Principals guaranteed trusts	273,946	268,119	5,827	5,795	57	57
KDB Venture M&A Private Equity Fund	120	7,910	(7,790)	-	-	-
KDB Turn Around Private Equity Fund	3,372	1	3,371	19	(280)	(280)
KDB Consus Value Private Equity Fund	16,849,641	16,590,305	259,336	4,475,638	(312,433)	(401,631)
Components & Materials M&A Private Equity Fund	1,964	5,208	(3,244)	13,225	12,532	12,631
KDB Value Private Equity Fund VI	11,622,516	9,176,965	2,445,551	11,491,549	(523,491)	(507,095)
KDB Value Private Equity Fund VII	211,195	70,426	140,769	1,507	(9,062)	(8,170)
KDB Sigma Private Equity Fund II	197,621	286	197,335	3	1,954	1,593
KDB Asia Private Equity Fund	23,489	1	23,488	-	(330)	1,056
KoFC-KBIC Frontier Champ 2010-5 PEF	50,213	2	50,211	1,900	2,001	4,221
KTB Korea-Australia Global Cooperation Private Equity Fund	1,081	1,661	(580)	-	(18,349)	(18,349)
KDBC IP Investment Fund 2	9,982	3,259	6,723	881	(3,385)	(4,375)
KoFC-KDBC Pioneer Champ 2010-4 venture investment Fund	17,909	238	17,671	5,877	5,452	(5,511)
K-Five 5th Securitization Specialty Co., Ltd. and 4 others	816,817	902,648	(85,831)	38,233	(3,485)	(3,510)
KIAMCO Road Investment Private Fund Special Asset Trust 2 and 40 beneficiary certificates	2,384,852	20,177	2,364,675	132,331	50,045	61,439

As of December 31, 2016 and 2015

(In millions of won)

1. Reporting Entity, Continued

	2015					
	Assets	Liabilities	Equity	Operating revenue	Net profit (loss)	Total comprehensive income (loss)
KDB Asia (HK) Ltd.	1,394,379	1,119,809	274,570	58,831	(2,687)	6,146
KDB Ireland Ltd.	391,559	325,708	65,851	19,865	(15,760)	(11,983)
KDB Bank Uzbekistan Ltd.	1,135,025	1,031,989	103,036	47,135	22,824	18,367
KDB Bank Europe Ltd.	867,214	800,106	67,108	104,018	(21,977)	(25,745)
Banco KDB Do Brazil S. A.	271,279	247,874	23,405	250,146	416	(14,859)
Mirae Asset Daewoo Co., Ltd.	34,841,940	30,456,640	4,385,300	5,076,963	298,847	292,826
KDB Capital Corporation	5,018,425	4,321,907	696,518	130,633	99,255	123,870
Multi Asset Global Investments Co., Ltd.	75,316	9,848	65,468	19,252	2,501	2,502
KDB Infrastructure Investment Asset Management Co., Ltd.	27,941	4,990	22,951	17,714	7,870	7,937
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	18,880,345	18,261,474	618,871	17,028,788	(2,097,513)	(1,709,234)
Korea Infrastructure Fund	13,460	6	13,454	1,211	1,061	1,061
Multi Asset Electronic Power PEF	94,806	17	94,789	6,577	6,321	6,321
Korea Education Fund	144,410	8	144,402	6,318	5,931	5,931
Korea BTL Fund I	527,254	361	526,893	24,124	22,496	22,496
Korea Railroad Fund I	355,887	14	355,873	17,660	16,657	16,657
Principals and interests guaranteed trusts	264,003	249,161	14,842	22,520	(1,871)	(1,871)
Principals guaranteed trusts	274,344	268,575	5,769	7,217	(62)	(62)
KDB Venture M&A Private Equity Fund	119	7,910	(7,791)	-	-	-
KDB Turn Around Private Equity Fund	3,652	-	3,652	27	26	26
KDB Consus Value Private Equity Fund	15,474,147	14,746,735	727,412	3,850,904	(139,023)	(166,000)
Components & Materials M&A Private Equity Fund	17,485	5,259	12,226	13,750	(1,693)	(14,806)
KDB Value Private Equity Fund VI	11,980,513	8,645,869	3,334,644	10,270,593	(77,713)	(78,076)
KDB Value Private Equity Fund VII	194,806	71,867	122,939	546	(1,181)	1,130
KDB Sigma Private Equity Fund	170	-	170	63,687	50,815	50,815
KDB Sigma Private Equity Fund II	144,228	286	143,942	5	241	192
KoFC-KBIC Frontier Champ 2010-5 PEF	51,934	145	51,789	9,469	9,270	8,939
KTB Korea-Australia Global Cooperation Private Equity Fund	18,761	992	17,769	-	(1,329)	(1,329)
KDBC IP Investment Fund 2	20,591	3,493	17,098	5,867	574	574
KoFC-KDBC Pioneer Champ 2010-4 venture investment Fund	38,157	2,881	35,276	19,955	15,142	15,142
K-Five 4th Securitization Specialty Co., Ltd. and 5 others	844,973	928,728	(83,755)	48,772	(14,436)	(15,023)
KIAMCO Road Investment Private Fund Special Asset Trust 2 and 42 beneficiary certificates	2,903,932	19,625	2,884,307	144,421	122,774	143,276

2. Basis of Preparation

(1) Application of accounting standards
The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS") enacted by the *Act on External Audit of Stock Companies*.

(2) Changes and disclosures of accounting policies

(i) New and amended standards and interpretations adopted
The Group newly applied the following amended and enacted standards for the annual period beginning on January 1, 2016. Application of these amendment and improvements would not have a material impact on its consolidated financial statements.

- *Amendment to K-IFRS 1001 'Presentation of Financial Statements'*
- *Amendment to K-IFRS 1016 'Property, plant and equipment', and K-IFRS 1038 'Intangible assets': Amortization based on revenue*
- *Amendment to K-IFRS 1110 'Consolidated Financial Statements', K-IFRS 1028 'Investments in Associates and Joint Arrangements', and K-IFRS 1112 'Disclosure of Interests in Other Entities': Exception to consolidation for investment entities*
- *Amendment to K-IFRS 1111 'Joint Agreements'*

The list above does not include some other amendments, but such amendments do not have a material impact on the Group's consolidated financial statements.

(ii) New and amended standards and interpretations issued but not effective
The following new standards, interpretations and amendments to existing standards have been published but not effective for annual periods beginning after January 1, 2016, and the Group has not early adopted them.

K-IFRS 1109 'Financial Instruments'
K-IFRS 1109 *'Financial Instruments'* replaces the existing guidance in K-IFRS 1039 *'Financial Instruments: Recognition and Measurement'*. The Group plans to adopt K-IFRS 1109 for the accounting periods beginning on or after January 1, 2018.

K-IFRS 1109 is retrospectively applied in principle, but there are some exceptions such as exemption of restatement of comparative information for classification, measurement, impairment of financial instruments. For hedge accounting, the requirements are generally applied prospectively, with some exceptions such as accounting for time value of options.

Major characteristics of K-IFRS 1109 are financial assets being classified and measured based on the holder's business model and instrument's contractual cash flow characteristics, impairment model of financial instruments based on expected credit losses (ECL), broader range of hedged items and hedging instruments that qualify for the application of hedge accounting or changes in evaluation of hedging effectiveness etc.

For smooth adoption of K-IFRS 1109, financial impact analysis, accounting policies establishment, accounting system establishment and stabilization need to take place. The impact of the standards on the financial statements in the period they are initially adopted may differ depending on the Group's decisions and judgments of accounting policies as well as economic environment and its financial instruments.

For the adoption of K-IFRS 1109, the Group is in the process of undertaking any update on its internal managing processes or a change in the accounting system related to the reporting of financial instruments, and is in the process of analyzing the financial impact of the new standard on the consolidated financial statements.

As of December 31, 2016 and 2015

2. Basis of Preparation, Continued

The general impacts on the consolidated financial statements are as follows:

Classification and measurement of financial assets
K-IFRS 1109 requires a financial asset to be classified and measured subsequently at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL) based on the holder's business model and instrument's contractual cash flow characteristics as shown below. If a hybrid contract contains a host that is a financial asset, an embedded derivative is not separated from the host and the entire hybrid contract is classified according to the requirement of K-IFRS 1109.

	Contractual cash flow characteristics	
Business model	Composed solely of principal and interest	Other
Objective of collecting contractual cash flows	Measured at amortized cost (*1)	
Objective of collecting contractual cash flows and selling financial assets	Measured at FVOCI (*1)	Measured at FVTPL (*2)
Objective of selling or others	Measured at FVTPL	

(*1) Financial assets may be irrevocably designated as measured at FVTPL to eliminate or reduce accounting mismatch.
(*2) Investment in equity instruments not held for trading may be irrevocably designated as measured at FVOCI.

The requirements of K-IFRS 1109 to classify financial assets as measured at amortized costs or FVOCI are more stringent than those of K-IFRS 1039, and thus, the proportion of financial assets measured at FVTPL may increase, which may lead to a rise in volatility of profit or loss because of the adoption of K-IFRS 1109.

Classification and measurement of financial liabilities
K-IFRS 1109 requires that the amount of change in fair value of the financial liability designated as measured at FVTPL that is attributable to changes in the credit risk shall be presented in other comprehensive income and the amount shall not be reclassified as profit or loss. If the requirements create or enlarge an accounting mismatch in profit or loss, all gains or losses on that liability including the effects of changes in the credit risk shall be presented in profit or loss.

In K-IFRS 1039, the entire change in fair value of the financial liability designated as measured at FVTPL is presented in profit or loss. In K-IFRS 1109, the profit or loss related to the financial liability may be decreased because a portion of the change in fair value is presented in other comprehensive income

Impairment: financial assets and contract assets
In K-IFRS 1039, impairment is recognized only when there is objective evidence of impairment based on incurred loss model. In K-IFRS 1109, impairment of debt instruments measured at amortized costs or FVOCI, lease receivables, contract assets, loan commitments and financial guarantee contracts is recognized based on the expected credit loss (ECL) impairment model.

K-IFRS 1109 outlines a 'three-stage' model for impairment based on changes in credit risk since initial recognition. A loss allowance is measured based on the 12-month ECL or life-time ECL which allows early recognition of credit loss compared to the incurred loss model of K-IFRS 1039.

Classification		Loss allowance
Stage 1	Assets with no significant increase in credit risk since initial recognition	12-month ECL: Expected credit losses that result from default events that are possible within 12 months after the reporting date.
Stage 2	Assets with significant increase in credit risk since initial recognition	Lifetime ECL: Expected credit losses that result from all possible default events over the expected life of the financial instrument.
Stage 3	Credit-impaired assets	

In K-IFRS 1109, the cumulated changes in lifetime ECL since initial recognition are recognized as a loss allowance for originated credit-impaired financial assets.

As of December 31, 2016 and 2015

2. **Basis of Preparation, Continued**

Hedge accounting
K-IFRS 1109 maintains mechanics of hedge accounting (fair value hedge, cash flow hedge and a hedge of a net investment in a foreign operation) as set forth in K-IFRS 1039. However, unlike requirements in K-IFRS 1039 that are too complex and strict, K-IFRS 1109 is more practical, principle based and less strict and focuses on the entity's risk management activities. Also, K-IFRS 1109 allows broader range of hedged items and hedging instruments. Under K-IFRS 1039, a hedge is assessed to be highly effective only if the offset is in the range of 80-125 percentages by performing numerical test of effectiveness. In K-IFRS 1109, such requirements are alleviated.

Transactions not qualifying for hedge accounting requirements of K-IFRS 1039 may now qualify for hedge accounting under K-IFRS 1109, resulting in less volatility of profit or loss.

K-IFRS 1115 'Revenue from Contracts with Customers'
K-IFRS 1115 *'Revenue from Contracts with Customers'* replaces the existing guidance in 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 core principle of 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 and it introduces a five-step approach to revenue recognition and measurement in accordance with the core principle. K-IFRS 1115 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group is in the process of evaluating the impact of this standard on its consolidated financial statements.

K-IFRS 1007 'Statement of Cash Flows'
Amendment to K-IFRS 1007 requires that the changes in liabilities arising from financing activities shall be classified to changes from financing cash flows, changes from non-cash transactions and other changes and the amounts of the changes shall be disclosed. The amendment to K-IFRS 1007 is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Group expects that the application of this amendment would not have a material impact on its consolidated financial statements.

K-IFRS 1012 'Income Taxes'
Amendment to K-IFRS 1012 clarifies that a temporary difference arises on unrealised loss if the fair value of debt instrument measured at fair value is less than its tax base. The amendment to K-IFRS 1012 is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Group expects that the application of this amendment would not have a material impact on its consolidated financial statements.

K-IFRS 1102 'Share-based Payment'
Amendment to K-IFRS 1102 clarifies the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled and valuation method used to measure fair value of cash-settled share-based payment. The amendment to K-IFRS 1102 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group expects that the application of this amendment would not have a material impact on its consolidated financial statements.

(3) Basis of measurement
The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statement of financial position:

- Derivative financial instruments measured at fair value
- Financial instruments measured at fair value through profit or loss
- Available-for-sale financial instruments measured at fair value
- Fair value hedged financial instruments with changes in fair value, due to hedged risks, recognized in profit or loss
- Liabilities for defined benefit plans, which are recognized as net of the total present value of defined benefit obligations less the fair value of plan assets

2. Basis of Preparation, Continued

(4) Functional and presentation currency
In preparing the Group's consolidated financial statements, transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. The Group's consolidated financial statements are presented in Korean won, which is also the Group's functional currency. The following entities of the Group have different functional currency from the presentation currency:

Functional currency	Subsidiaries
USD	KDB Asia Ltd.
	KDB Ireland Ltd.
	KDB Asia Private Equity Fund
	Multi-Asset KDB Shipping Private Fund SH1
	Multi-Asset KDB Shipping Private Fund HJ-1
	Multi-Asset KDB Shipping Private Fund SPO-1
	Multi-Asset KDB Shipping Private Fund SNT-1
	Multi-Asset KDB Shipping Private Fund SNT-2
	Multi-Asset KDB Shipping Private Fund DA-3
	Multi-Asset KDB Shipping Private Fund KLC-1
	Multi-Asset KDB Shipping Private Fund SNP-1
	Multi-Asset KDB Ocean Value-up Private Fund 5th
	Multi-Asset KDB Ocean Value-up Private Fund 6th
	Multi-Asset KDB Ocean Value-up Private Fund 9th
	Multi-Asset KDB Ocean Value-up Private Fund 9-1st
	KDB Ocean Value-up Private Fund 7th
UZS	KDB Bank Uzbekistan Ltd.
HUF	KDB Bank Europe Ltd.
BRL	Banco KDB Do Brazil S. A.

(5) Use of estimates and judgments
The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Management's estimates may differ from actual outcomes if management's estimates and assumptions based on management's best judgment at the reporting date are different from the actual environment.

Estimates and underlying assumptions are evaluated on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

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

(i) Fair value of financial instruments
Financial instruments held-for-trading, financial instruments designated at fair value through profit or loss, available-for-sale financial assets and derivative instruments are recognized and measured at fair value. If the market for a financial instrument is not active, fair value is determined either by using a valuation technique or independent third-party valuation service. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, referencing to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

Financial instruments, which are not actively traded in the market and those with less transparent market prices, will have less objective fair values and require broad judgment on liquidity, concentration, uncertainty in market factors and assumptions in price determination and other risks.

Diverse valuation techniques are used to determine the fair value of financial instruments, from generally accepted market valuation models to internally developed valuation models that incorporate various types of assumptions and variables.

As of December 31, 2016 and 2015

2. Basis of Preparation, Continued

(ii) Provisions for credit losses (allowances for loan losses, provisions for payment guarantee, and unused commitments)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant (individual assessment of impairment). Financial assets that are not individually significant assess objective evidence of impairment individually or collectively. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (collective assessment of impairment).

Provisions for credit losses are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

Individual assessment of impairment losses is calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. This process normally encompasses management's best estimate, such as operating cash flow of the borrower and net realizable value of any collateral held.

A methodology based on historical loss experience is used to estimate inherent incurred loss on groups of assets for collective assessment of impairment. Such methodology incorporates factors such as type of collateral, product and borrowers, credit rating, loss emergence period, recovery period and applies probability of default on a group of assets and loss given default by type of recovery method. Also, consistent assumptions are applied to form a formula-based model in estimating inherent loss and to determine factors based on historical loss experience and current condition. The methodology and assumptions used for collective assessment of impairment are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(iii) Deferred taxes

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred income tax assets are recognized to the extent that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Actual income taxes in the future may not be identical to the recognized deferred tax assets and liabilities,

(iv) Defined benefit liabilities

The Group operates a defined benefit plan. Defined benefit liability is calculated by annual actuarial valuations as of the reporting date. To perform the actuarial valuations, assumptions for discount rates, future salary increases and others are required to be estimated. Defined benefit plans contain significant uncertainties in estimations due to its long-term nature.

(6) Approval date for the consolidated financial statements

The consolidated financial statements were authorized for issue by the Board of Directors on March 30, 2017, which were approved to the shareholders' meeting held on March 30, 2017.

3. Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(1) Basis of consolidation

(i) Subsidiaries and business combinations
Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power of the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which controls ceases.

If a subsidiary of the Group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

For acquisitions meeting the definition of a business combination, the acquisition method of accounting is used. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any goodwill arising from initial consolidation is tested for impairment at least once a year and whenever events or changes in circumstances indicate the need for impairment. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date in fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed and the amount of any non-controlling interests in the acquire. Costs related to acquisition are recognized as expenses when occurred.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets acquired, the difference is recognized directly in the consolidated statement of comprehensive income.

Intra-group balances, income and expenses, unrealized gain and loss and dividends resulting from intra-group transactions are fully eliminated

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it recognizes any investment retained at fair value and any surplus or deficit in profit or loss.

As of December 31, 2016 and 2015

3. **Significant Accounting Policies, Continued**

(ii) Investments in associates
Associates are all entities over which the Group has significant influence but not control. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. When the investors' share on the fair value of the associates' identifiable assets and liabilities exceeds acquisition cost of the associates' interest, the excess portion is recognized as the current profit for the year of acquisition.

The Group's share of its associates' post-acquisition profits or loss is recognized in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognized in reserves. When the Group's share of loss in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further loss, unless it has incurred obligations or made payments on behalf of the associates. The carrying amount of equity method investments and the long term interest that partially consists of investors' net investment are included in interest in the associate.

Unrealized gain and loss on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iii) Acquisitions from entities under common control
The assets and liabilities acquired are recognized at the carrying amounts recognized previously in the Group controlling shareholder's consolidated financial statements. The difference between cash paid and acquired net assets are recorded in equity.

(iv) Non-controlling Interests
Non-controlling interests in a subsidiary are accounted for separately from the parent's ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the parent and non-controlling interest holders, even when the allocation reduces the non-controlling interests balance below zero.

(v) Changes in the parent company's ownership interest
Changes in the parent company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. The difference between the consideration and the adjustments made to non-controlling interests is recognized directly in equity attributable to the owners of the parent company.

(2) Operating segments
An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise corporate assets (primarily the Group's headquarters), head office expenses, and income tax assets and liabilities. The Group recognizes the CEO as the chief operating decision maker.

3. Significant Accounting Policies, Continued

(3) Foreign exchange

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on the translation of available for sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or in a qualifying cash flow hedge, which are recognized in other comprehensive income. Exchange rate effect of the gain (or loss) from non-monetary item is categorized according to whether the gain (or loss) is recognized as other comprehensive income or as profit or loss.

(ii) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

Unless the functional currency of foreign operations is in a state of hyperinflation, assets and liabilities of foreign operations are translated at the closing exchange rate at the end of the reporting period. Revenues and expenses on the statement of comprehensive income are translated at the exchange rates of the date of transaction. Foreign currency differences that arise from translation are recognized as other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation, and any adjustments in fair value to the carrying amounts of assets and liabilities due to such acquisition, are treated as assets and liabilities of the foreign operation. Therefore, such are expressed in the functional currency of the foreign operations and, alongside other assets and liabilities of the foreign operation, translated at the closing exchange rate.

In the case of the disposal of a foreign operation, cumulative amounts of exchange difference regarding the foreign operation, recognized separately from other comprehensive income, are re-categorized from assets to profit or loss as of the moment the disposal profit or loss is recognized.

(iii) Foreign exchange of net investment in foreign operations

Monetary items receivable from or payable to a foreign operation, with none or little possibility of being settled in the foreseeable future, are considered a part of the net investment in the foreign operation. Therefore, the exchange difference is recognized as comprehensive profit or loss in the financial statement, and re-categorized to profit or loss as of the disposal of the related net investment.

As of December 31, 2016 and 2015

3. Significant Accounting Policies, Continued

(4) Cash and cash equivalents

Cash and cash equivalents comprise balances with original maturities of or less than three months' maturity from the date of acquisition that are subject to an insignificant risk of changes in their fair value, including cash on hand, deposits held at call with banks and other highly liquid short-term investments with original maturities of three months or less.

(5) Non-derivative financial assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity assets, loans and receivables and available for sale financial assets. Moreover, the Group recognizes financial assets in the statement of financial position as of the time the Group becomes a party to the contractual provisions of the instrument.

Non-derivative financial assets are measured at fair value upon initial recognition and, unless designated at fair value through profit or loss, transaction costs directly regarding acquisition and issuance of such assets are summed to the initial fair value.

(i) Financial assets at fair value through profit or loss

Any financial asset classified as held for trading or designated at fair value through profit or loss at initial recognition is categorized under financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss (FVTPL) are measured at fair value upon initial recognition, and changes therein are recognized as profit or loss. Furthermore, transaction costs regarding acquisition upon initial recognition are recognized as profit or loss as incurred.

(ii) Held-to-maturity financial assets

If a non-derivative financial asset has a fixed maturity with a fixed or determinable payment, and the Group has positive intent and ability to hold such an asset, it is classified as held-to-maturity financial assets. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized costs using the effective interest rate ("EIR") method.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method. Furthermore, the effective interest rate method is applied to recognize interest incomes on financial investments, except short-term loans and receivables, in which case the impact of effective interest the method is immaterial.

(iv) Available-for-sale financial assets

Any non-derivative financial asset, not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables, is classified as available-for-sale financial assets. Subsequent to initial recognition, such assets are measured at fair value. However, equity instruments that do not have a quoted market price in an active market and cannot be reliably measured, and any derivatives that are linked to these instruments and need to be settled upon the delivery of such equity instruments are measured at cost. Accumulated other comprehensive income, reflected in equity as fair value changes, is recognized as profit or loss as of the time the related available-for-sale asset is disposed of or the impairment loss is recognized. Furthermore, dividends earned whilst holding available-for-sale financial assets are recognized in the consolidated statement of comprehensive income upon the establishment of the right to receive the payment.

3. Significant Accounting Policies, Continued

(v) De-recognition of financial assets
The Group de-recognizes a financial asset when the rights to receive cash flow from an asset expire, or when it transfers the rights to receive cash flow and substantially all the risks and rewards from the ownership of a financial asset. In the case that the Group has neither transferred nor retained substantially all the risks and rewards of an asset, the Group de-recognizes any assets if it does not have control, and recognizes any assets to the extent of the Group's continuing involvement if it does have control. In the latter case, any associated liabilities are recognized by the Group. In the case the Group retains substantially all the risks and rewards from the ownership of an asset it does not have control of, the Group continues to recognize the financial asset, and recognizes consideration received as financial liabilities.

(vi) Offsetting between financial assets and financial liabilities
Financial assets and liabilities are set-off only under the conditions that the Group has legal rights to set-off the recognized amounts, and the intention to settle on a net basis or to realize assets and settle liabilities at the same time.

(6) Impairment of financial assets
The Group assesses the possibility of objective evidence that may indicate any impairment of financial assets, except those designated at fair value through profit or loss, at each reporting date. A financial asset is defined as impaired if, because of one or more events after initial recognition, the estimated future cash flow of the asset has been affected. However, expected impairments from future events are not recognized, regardless of their likelihood.

Upon the finding of objective evidence to believe an asset is impaired, the impairment is measured and recognized in profit or loss as follows, according to the asset category:

(i) Impairment of loans and receivables
The Group assesses, at each reporting date, whether objective evidence that indicate impairment of loans and receivables exist. If objective evidence shows that believe impairment has occurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted using the initial effective interest rate (EIR). Furthermore, the carrying amount of the asset is reduced using an allowance account.

All individually significant loans and receivables are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In individual assessment, allowances on losses are computed using the discounted expected recoverable value, estimated by operating cash flows or collateral cash flow; in collective assessment, allowances on losses are computed using statistical methods based on obtainable historical loss experience.

The present value of estimated future cash flows is measured using the loan's initial EIR. If the loan has a floating interest rate, the Group uses the current EIR for the measurement. Future cash flows from collateral are estimated at net cash flow from disposal of collateral (deducting transaction cost).

For a collective assessment of impairment, assets are analysed based on the Group's internal credit rating system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows of the assets collectively assessed are estimated based on historical loss experience for loans with similar credit risk characteristics. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that no longer exist. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred loss in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3. <u>Significant Accounting Policies, Continued</u>

(ii) Impairment of available-for-sale financial assets

The Group assesses, at each reporting date, whether objective evidence that indicate impairment of available-for-sale assets exist. If such objective evidence exists, the amount of the loss is measured as the difference between the acquisition cost and the current fair value.

An available-for-sale financial asset is considered to be impaired if there is a significant or prolonged decline in fair value of the asset below the acquisition cost. The Group considers a 30% to be significant and a period of six months to be prolonged.

Impairment loss on equity securities are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in, the impairment loss is reversed through the statement of comprehensive income. Moreover, the impairment loss is directly reduced from the carrying amount of the financial assets available-for-sale.

(iii) Impairment of held-to-maturity financial assets

The Group assesses individually, at each reporting date, whether there is objective evidence that a held-to-maturity financial asset is impaired. If any such evidence exists, the amount of loss is measured as the difference between the carrying amount and the present value of estimated future cash flows, which is discounted using the initial EIR, and recognized in the statement of comprehensive income. If, in a subsequent period, the fair value of a financial asset held-to-maturity increases and the increase can be objectively related to an event occurring after the impairment was recognized, the impairment loss is reversed through the statement of comprehensive income. Moreover, the impairment loss is directly reduced from the carrying amount of the financial asset held-to-maturity.

(iv) Loss events of financial assets

Objective evidences that a financial asset is impaired include the following loss events:

- Significant financial difficulty of the issuer or obligor
- A breach of contract, such as a default or delinquency in interest or principal payments
- The granting of a concession to the borrower, for economic or legal reasons, that the lender would not otherwise consider
- A state with high probability that the borrower will enter bankruptcy or other financial reorganization
- The disappearance of an active market for that financial asset due to financial difficulties
- The presence of observable data indicating a measurable decrease in the estimated future cash flows of a group of financial assets since the initial recognition of the group, although the decrease cannot yet be identified with the individual financial asset within the group

3. Significant Accounting Policies, Continued

(7) Derivative financial instruments including hedge accounting

Derivative instruments are initially recognized at the fair value upon agreement of the contract, and re-estimated at fair value subsequently. The recognition of profit or loss due to changes in fair value of derivative instruments is as stated below:

(i) Hedge accounting

Derivative instruments are accounted differently depending on whether or not hedge accounting is applied, and therefore, are classified into trading purpose derivatives and hedging purpose derivatives.

Upon the transaction of hedging purpose derivatives, two different hedge accounting are applied; a fair value hedge, and a cash flow hedge. A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. A cash flow hedge is a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss. For trading purpose derivatives transaction, changes in the fair value of derivatives are recognized in net income.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. Also, at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item and actual result was so.

Fair value hedge

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognized in profit or loss in the statement of comprehensive income. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in profit or loss in the statement of comprehensive income. When the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged item recorded at amortized cost, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the EIR.

Cash flow hedge

For designated and qualifying cash flow hedges, the effective portion of gain or loss on the hedging instruments is initially recognized directly in equity. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in the statement of comprehensive income. When the hedged cash flow affects the profit or loss in statement of comprehensive income, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line in profit or loss in the statement of comprehensive income. When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the hedged forecasted transaction is ultimately recognized in the statement of comprehensive income. When a forecasted transaction is no longer expected to occur, the cumulative gain and loss that was reported in equity is immediately transferred to profit or loss in the consolidated statement of comprehensive income.

(ii) Embedded derivative instruments

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives. The Group records embedded derivative instruments at fair value if their economic characteristics and risks are not clearly and closely related to those of the host contract. If the embedded derivative cannot be measured separately from the host contract, the Group aggregately designates the host contract and embedded derivative as a financial instrument at fair value through profit or loss. Changes due to the fair value assessment of embedded derivative instruments are recognized in profit or loss.

(iii) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

As of December 31, 2016 and 2015

3. Significant Accounting Policies, Continued

(8) Fair value of financial instruments
The fair value of financial instruments that are traded in active markets is determined by referencing quoted market prices at each reporting date. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include discounted cash flow analysis or other valuation methods.

The Group's policies for measuring fair value of financial instruments at amortized costs are as follows:

- Cash and due from banks: Fair value of cash is considered equivalent to the carrying amount. In the case of due from banks on demand, which do not have a set maturity and can be realized instantly, the carrying amount is considered to be a close estimate of the fair value and is assumed so. In the case of other ordinary due from banks, the cash flow discount method is used to estimate the fair value.

- Loans: The fair value of loans is the expected future cash flows, reflecting premature redemption ratio, discounted by the market interest rate, adjusted by a spread sheet considering the probability of default. Exceptions to this method include loans with credit line facilities, loans with a maturity of three months or less left and impaired loans, which the Group assumes the carrying amount as the fair value.

- Held-to-maturity financial assets: The fair value of held-to-maturity financial assets is computed by widely accepted appraisal agencies upon request.

- Deposits: The fair value of deposits is computed using the discounted cash flow method. However, for deposits, whose cash flows cannot be estimated reasonably, the Group assumes the carrying amount as the fair value.

- Borrowings: For borrowings in Korean won, the fair value is computed using the discounted cash flow method. For borrowings in foreign currency, the fair value is computed by widely accepted appraisal agencies upon request.

- Debentures: The fair value of industrial financial debentures in Korean won, except structured debentures in Korean won, is computed using the discounted cash flow method. For structured industrial financial debentures in Korean won and industrial financial debentures in foreign currency, the fair value is computed by widely accepted appraisal agencies upon request.

- Other financial assets and liabilities: The fair value of other financial assets and liabilities is computed using the discounted cash flow method. However, in cases cash flow cannot be estimated reasonably, the Group assumes the carrying amount as the fair value.

(9) Day one profit or loss recognition
For financial instruments classified as level 3 on the fair value level hierarchy measured using assess variables not observable in the market, the difference between the fair value at initial recognition and the transaction price, which is equivalent to Day one profit or loss, is amortized by using the straight-line method over time.

3. Significant Accounting Policies, Continued

(10) Lease

The classification of leases is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor and the lessee.

(i) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases, and the Group presents them as a receivable at an amount equal to the net investment in the lease. Also, initial direct cost that includes directly and additionally incurred commission fee, legal expenses, and internal accrued costs are included in finance lease receivables. The Group accounts for lease payment by apportioning into finance lease receivables and interest revenue, and interest revenue is recognized using the EIR method on uncollected finance lease net investment.

(ii) Operating lease

A lease is classified as operating lease if it does not transfer substantially all the risks and rewards incidental to ownership, and the related asset is presented as acquisition cost less accumulated depreciation. Moreover, the minimum lease payment excluding guaranteed residual value is recognized as revenue on a straight-line basis over the lease term. Initial direct costs incurred by lessors in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognized as an expense over the lease term, and the depreciation policy for depreciable leased assets shall be consistent with the lessors' normal depreciation policy for similar assets.

(11) Property and equipment

The Group's property and equipment is recognized at the carrying amount as historical costs less accumulated depreciation and accumulated impairment in value. Historical costs include the expenditures directly related to the acquisition of assets.

Subsequent costs are recognized in the carrying amount of assets or, if appropriate, as separate assets if the probabilities future economic benefits associated with the assets will flow into the Group and the costs can be measured reliably; the carrying amount of the replaced part is derecognized. Furthermore, any other repairs or maintenances are charged to profit or loss as incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to the amount of residual value less acquisition cost over the following estimated useful lives:

Type	Useful lives (years)
Buildings	12 ~ 60
Structure	10 ~ 51
Leasehold improvements	4
Vehicles	4
Equipment	4 ~ 8
Other properties	2 ~ 40

Property and equipment are impaired when its carrying amount exceeds the recoverable amount. The Group assesses residual value and economic life of its assets at each reporting date and adjusts its useful life when necessary. Any gain or loss arising from the disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in non-operating income (expense) in the consolidated statement of comprehensive income.

As of December 31, 2016 and 2015

3. Significant Accounting Policies, Continued

(12) Investment property

The Group classifies property held for rental income or benefits from capital appreciation as investment property. Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, the cost model is applied. Subsequent to initial recognition, an item of investment property is carried at its cost less any accumulated depreciation and any accumulated impairment loss.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the statement of comprehensive income in the period of de-recognition. Reclassification to or from other account is made if there is a change in use of corresponding investment property.

Depreciation of investment property is calculated using the straight-line method over their estimated useful lives as follows:

Type	Useful lives (years)
Buildings	20 ~ 50
Structure	10 ~ 40

(13) Intangible assets

An intangible asset is recognized only when its cost can be measured reliably, and the probabilities future economic benefits from the asset will flow into the Group are high. Separately acquired intangible assets are recognized at the acquisition cost, and subsequently, the cost less accumulated depreciation and accumulated impairment is recognized as the carrying amount.

Intangible assets with finite lives are amortized over the 4-year to 30-year period of useful economic lives using the straight-line method. At the end of each reporting period, the Group reviews intangible assets for any evidence that indicate impairment, and upon the presence of such evidence, the Group estimates the amount recoverable and recognizes the loss accordingly. Intangible assets are derecognized either when they have been disposed of or when the intangible assets are permanently withdrawn from use and no future economic benefit is expected from its disposal.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually. Furthermore, the Group reviews such intangible assets to determine whether it is appropriate to consider these assets to have indefinite useful lives. If in the case the Group concludes an asset is not qualified to be classified as non-finite, prospective measures are taken to consider such an asset as finite.

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

3. **Significant Accounting Policies, Continued**

(14) Impairment of non-financial assets
The Group tests for any evidence of impairment in assets and reviews whether the impairment has taken place by estimating the recoverable amount, at the end of each reporting period. The Group estimates the recoverable amount of each asset or a whole cash-generating unit unless it is possible to estimate the amount of the asset in that unit. The recoverable amount is the higher of the fair value less cost and value in use, of an asset. The Group recognizes the difference between the carrying amount and the recoverable amount of the asset as an impairment loss if the carrying amount exceeds the recoverable amount.

Any goodwill arising on the acquisition of a business is allocated to each cash-generating unit that is expected to gain the benefits of the synergy effect. Impairment on cash-generating unit deducts other assets in proportion to their carrying amounts after deducting the carrying amount of goodwill allocated in that unit. Impairment loss on goodwill cannot be reversed once it is recognized.

Except for impairment losses in respect of goodwill that are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

(15) Assets held for sale
Non-current assets (or disposal groups) that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. To be classified as held for sale, the asset (or disposal groups) must be available for immediate sale in its present condition and its sale must be highly probable. The assets (or disposal groups) that are classified as assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal groups) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized.

Non-current assets that are classified as held for sale or part of a disposal group classified as held for sale are not depreciated (or amortized).

(16) Non-derivative financial liabilities
The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liability. The Group recognizes these financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

(i) Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss in the current year include financial liabilities held for trading and financial liabilities designated at FVTPL upon initial recognition. Financial liabilities and derivatives are classified as financial instruments held for trading if they are acquired for repurchasing in the near future. Financial liabilities are classified as financial liabilities at FVTPL upon initial recognition, if the profit or loss from the liabilities indicates to be more purpose-appropriate to be recognized as profit or loss. Financial liabilities at FVTPL are designated at fair value in subsequent measurements, and any related un-realized profit or loss is recognized as profit or loss.

As of December 31, 2016 and 2015

3. **Significant Accounting Policies, Continued**

(ii) Financial liabilities measured at amortized cost
Financial liabilities measured at amortized cost are recognized at fair value less cost less transaction cost upon initial recognition, and subsequently at amortized costs. The difference between the proceeds (net of transaction cost) and the redemption value is recognized in the statement of comprehensive income over the periods of the liabilities using the EIR.

Fees paid on the establishment of a loan facility are recognized as transaction costs of the loan, if the probability that some or all of the facility will be drawn down is high. The amount is deferred until the financial liability would be withdrawn. If, however, there is not enough evidence to conclude a draw-down of some or all of the facility will occur, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

(iii) De-recognition of financial liabilities
A financial liability is de-recognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

(17) Employee benefits

(i) Short-term employee benefits
Short-term employee benefits are employee benefits that are due to be settled wholly before 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Retirement benefits: defined contribution plans
A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate fund. The Group is no longer responsible for any foreseeable future liability after a certain amount or percentage of money is set aside for defined contribution plans. If the pension plan allows for early retirement, payments are recognized as employee benefits. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(iii) Retirement benefits: defined benefit plans
The Group classifies all the pensions as defined benefit plans except defined contribution plans. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and have terms to maturity similar to the terms of the related pension liability.

Remeasurements of the net defined benefit liabilities (assets), which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income.

3. Significant Accounting Policies, Continued

(18) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation because of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(19) Financial guarantees

Financial guarantee contracts are contracts that require the issuer (the Bank) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the original or changed terms of a debt instrument. Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given, and amortized over the period of the guarantee. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of:

- The amount determined in accordance with K-IFRS 1037 '*Provisions, Contingent Liabilities and Contingent Assets'* and
- The initial amount less amortization of fees recognized in accordance with K-IFRS 1018 *'Revenue'*.

(20) Securities under resale or repurchase agreements

Securities purchased under agreements to resell are recorded as other loans and receivables and the related interest from these securities is recorded as interest income; Securities sold under agreements to repurchase are recorded as borrowings, and the related interest from these securities is recorded as interest expense.

(21) Policy reserves for insurance contracts

In accordance with the *Insurance Business Act* and related insurance standards, the Group is required to maintain policy reserves, which consist of premium reserve, unearned premium reserve, reserve for outstanding claims, reserve for participating policyholders' dividends, excess participating policyholders' dividend reserve and reserve for loss on participating insurance policies, as a liability which is measured in accordance with the *Manual for Calculation of Premium and Policy Reserves* as approved by the Financial Supervisory Commission. Details are as follows:

(i) Premium reserve

Premium reserve represents an amount calculated based on a net premium valuation, which is the greater of an amount calculated by using the standard interest rate and standard risk rate issued by the Financial Supervisory Service (FSS), and an amount calculated using an internally generated rate derived by the Group. If the reserve is at zero or less, the amount is to be recorded at nil.

(ii) Unearned premium reserve

Unearned premium reserve represents an amount allocated for certain premiums whose initial payment date falls within the current reporting period and future payments, if any, fall subsequent to the end of the reporting period.

(iii) Guaranteed benefit reserve

Guaranteed benefit reserve guarantees a certain level of the insurance claims considering expected loss in the future. The Group's guaranteed benefit reserve consists of the following:

- Guaranteed minimum accumulation benefit: reserves that guarantee financial resources for the pension benefit amount that equals to the predetermined value in the contract.
- Guaranteed minimum death benefit: reserves that guarantee death benefit amount that equals to the predetermined value in the contract.
- Guaranteed minimum withdrawal benefit: reserves that guarantee the interim withdrawals amount that equals to the predetermined value in the contract during the period for interim withdrawals.
- Guaranteed lifetime withdrawal benefit: reserves that guarantee the interim withdrawals amount that equals to the predetermined value in the contract during lifetime.
- Other guaranteed benefits: guaranteed benefit reserves other than those listed above for a guarantee of insurance proceeds in excess of a certain level.

As of December 31, 2016 and 2015

3. **Significant Accounting Policies, Continued**

(iv) Reserve for outstanding claims
Reserve for outstanding claims represents a reserve based on estimate of loss for insured events that have occurred prior to the reporting date but have not yet been settled or determined, including:

- Outstanding losses: losses that have been reported to the insurer but are still in the process of settlement (in cases where a claim is partially paid, the remnant is reported).
- Incurred but not reported (IBNR): an estimate of the amount based on historical information of an insurer's liability for claim-generating events that have taken place but have not yet been reported to the insurer.
- Reserve for lapsed insurance contracts: reserve for insurance cancellation refund for lapsed insurance contracts due to non-payment of insurance premium that still can be revived or deferred within a certain period.
- Outstanding claims: legitimate claims, such as compensation, refund, dividend that an insurer has not yet paid to policy holder.

(v) Reserve for participating policyholders' dividends
The reserve for participating policyholders' dividends is classified into interest dividend reserve, mortality dividend reserve, interest rate difference guarantee reserve and long-term duration dividend reserve.

(vi) Excess participating policyholders' dividend reserve
Pursuant to relevant laws and contracts, the Group may provide an excess participating policyholder dividend reserve based on the operating results of related insurance products. The reserve may be used to pay participating policyholder dividends or additional dividends.

(22) Equity
Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or loss from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

Non–controlling interests refer to equity in a subsidiary not attributable, directly or indirectly, to a parent. Non-controlling interests consist of the minority interest net income calculated under K-IFRS 1103 '*Business Combinations'* at the date of the initial combination, and minority interest of changes in equity after the business combination.

(23) Government subsidy
Government subsidy without repayment obligation, which is used for the acquisition of certain assets, is accounted for as a deduction from the acquisition cost of the acquired assets. Such subsidy amount is offset against the depreciation or amortization of the acquired assets during such assets' useful life.

(24) Interest income and expense
Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest method measures the amortized costs of financial instruments and allocates the interest income or expense during the related period.

Upon the calculation of the effective interest rate, the Group estimates future cash flows by taking into consideration all contractual terms of the financial instrument, but not future credit loss. The calculation also reflects any fees or points paid or received, transaction costs and any related premiums or discounts. In the case that the cash flow and expected duration of a financial instrument cannot be estimated reliably, the effective interest rate is calculated by the contractual cash flow during the contract period.

Once an impairment loss has been recognized on a financial asset or a group of similar assets, subsequent interest income is recognized on the interest rate that was used to discount future cash flow for measuring the impairment loss.

3. **Significant Accounting Policies, Continued**

(25) Fees and commission income
Fees and commission income and expense are classified as follows according to related regulations:

(i) Fees and commission from financial instruments
Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. It includes those related to evaluation of the borrowers' financial status, guarantee, collateral, other agreements and related evaluation as well as business transaction, rewards for activities, such as document preparation and recording and setup fees incurred during issuance of financial liabilities. However, when financial instruments are classified as financial instruments at fair value through profit or loss, fees and commission are recognized as revenue upon initial recognition.

(ii) Fees and commission from services
Fees and commission income charged in exchange for services to be performed during a certain period such as asset management fees, consignment fees and assurance service fees are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan and K-IFRS 1039 '*Financial Instrument: Recognition and Measurement'* is not applied for the commitment, the related loan commitment fees are recognized as revenue proportionally to time over the commitment period.

(iii) Fees and commission from significant transaction
Fees and commission from significant transactions, such as trading stocks and other securities, negotiation and mediation activities for third parties, for instance business transfer and takeover, are recognized when transactions are completed.

(26) Dividend income
Dividend income is recognized upon the establishment of the Group's right to receive the payment.

(27) Income tax expense
Income tax expense comprises current and deferred income tax. Current income tax and deferred income tax are recognized in profit or loss except to the extent that the tax arises from a transaction or event, which is recognized in other comprehensive income or directly in equity, or a business combination.

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

Subsidiaries calculate income tax based on their tax laws and report the amount as current income tax liability.

The Group recognizes deferred income tax liabilities for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes deferred income tax assets for all deductible temporary differences arising from investments in associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

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

Deferred income tax assets and liabilities are offset only if the Group has a legally enforceable right to offset the related current income tax assets and liabilities, and the assets and liabilities relate to income tax levied by the same tax authority and are intended to be settled on a net basis.

As of December 31, 2016 and 2015

3. Significant Accounting Policies, Continued

(28) Accounting for trust accounts

The Group, for financial reporting, differentiates trust assets from identifiable assets according to the *Financial Investment Services and Capital Markets Act*. Furthermore, the Group receives trust fees from the application, management and disposal of trust assets, and appropriates such amounts for fees from trust accounts.

Meanwhile, in the case the fee from an unspecified principal or interests guaranteed money in trust does not meet the principal or interest amount, even after appropriating deficit with trust fees and special reserve, the Group fills in the remaining deficit in the trust account and appropriates such amounts for losses on trust accounts.

(29) Regulatory reserve for credit losses

When the total sum of allowance for possible credit losses under K-IFRS is lower than the amount prescribed in Article 29(1) of the *Regulations on supervision of Banking Business*, the Group records the difference as a regulatory reserve for credit losses at the end of each reporting period.

In the case that the existing regulatory reserve for credit losses exceeds the amount needed to be set aside at the reporting date, the surplus may be reversed. Furthermore, in the case that undisposed deficit exists, a regulatory reserve for credit losses is saved from the time the undisposed deficit is disposed.

(30) Earnings per share

The Group represents its diluted and basic earnings per common share in the consolidated comprehensive statement of income. Basic earnings per share (EPS) is calculated by dividing net profit attributable to shareholders of the Group by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is calculated by adjusting net profit attributable to common shareholders of the Group, considering dilution effects from all potential common shares, and the weighted average number of common shares outstanding.

(31) Correction of errors

Prior period errors shall be corrected by retrospective restatement in the first set of financial statements authorised for issue after their discovery except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.

As of December 31, 2016 and 2015

(In millions of won)

4. Cash and Due from Banks

(1) Cash and due from banks as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Cash	₩	804,988	857,614
Due from banks in Korean won:			
Due from Bank of Korea		1,793,111	1,367,960
Other due from banks in Korean won		1,320,649	1,864,010
		3,113,760	3,231,970
Due from banks in foreign currencies / off-shores		5,252,455	3,805,210
Allowance for credit losses		-	(112)
	₩	9,171,203	7,894,682

(2) Restricted due from banks as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Reserve deposit	₩	1,100,838	1,113,981
Reserve for payment of principal and interest on behalf of SPC		141,532	38,523
Others		750,330	572,006
	₩	1,992,700	1,724,510

5. Financial Assets Held for Trading

(1) Financial assets held for trading as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Financial assets held for trading denominated in Korean won:			
Equity securities:			
Stocks and equity investments	₩	188,070	144,576
Beneficiary certificates		148,772	299,677
		336,842	444,253
Debt securities:			
Government and public bonds		1,166,518	1,133,756
Financial bonds		454,061	593,593
Corporate bonds		203,027	202,180
Commercial paper		15,911	29,771
		1,839,517	1,959,300
		2,176,359	2,403,553
Financial assets held for trading denominated in foreign currencies / off shores:			
Equity securities		20,543	-
Debt securities		223,930	110,541
		244,473	110,541
	₩	2,420,832	2,514,094

As of December 31, 2016 and 2015

(In millions of won)

5. Financial Assets Held for Trading, Continued

(2) Details of debt securities in financial assets held for trading as of December 31, 2016 and 2015 are as follows:

		December 31, 2016		
		Face value	Acquisition cost	Fair value (Carrying amounts)
Government and public bonds in Korean won	₩	1,161,199	1,170,704	1,166,518
Financial bonds in Korean won		455,041	454,589	454,061
Corporate bonds in Korean won		206,243	205,713	203,027
Commercial paper in Korean won		16,000	15,913	15,911
Debt securities in foreign currencies		223,025	223,746	223,930
	₩	2,061,508	2,070,665	2,063,447

		December 31, 2015		
		Face value	Acquisition cost	Fair value (Carrying amounts)
Government and public bonds in Korean won	₩	1,121,775	1,135,802	1,133,756
Financial bonds in Korean won		595,041	593,834	593,593
Corporate bonds in Korean won		197,293	196,894	202,180
Commercial paper in Korean won		30,010	29,779	29,771
Debt securities in foreign currencies		110,144	111,312	110,541
	₩	2,054,263	2,067,621	2,069,841

6. Financial Assets Designated at Fair Value Through Profit or Loss

The financial assets designated at fair value through profit or loss as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Securities designated at FVTPL denominated in Korean won	₩	319,010	368,719
Securities designated at FVTPL denominated in foreign currencies		22,293	62,664
	₩	341,303	431,383

The above financial assets designated at fair value through profit or loss consist of equity-index-linked securities, and others. Through designating embedded derivatives and host contracts as FVTPL items, changes in fair value of complex financial products are recognized in profit or loss.

As of December 31, 2016 and 2015

(In millions of won)

7. Available-for-Sale Financial Assets

(1) Available-for-sale financial assets as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Available-for-sale financial assets denominated in Korean won:			
Equity securities:			
Stocks and equity investments	₩	12,486,503	11,499,434
Beneficiary certificates		5,840,314	5,709,560
Others		374,575	393,479
		18,701,392	17,602,473
Debt securities:			
Government and public bonds		4,584,739	6,157,320
Financial bonds		2,714,995	8,198,435
Corporate bonds		10,862,210	13,287,455
		18,161,944	27,643,210
		36,863,336	45,245,683
Available-for-sale financial assets denominated in foreign currencies / off shores:			
Equity securities		457,910	512,800
Debt securities		6,489,380	6,737,257
		6,947,290	7,250,057
	₩	43,810,626	52,495,740

Equity securities with no quoted market prices in active markets and for which the fair value cannot be measured reliably are recorded at cost in the amount of ₩8,191,860 million and ₩8,128,600 million as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015

(In millions of won)

7. Available-for-Sale Financial Assets, Continued

(2) Changes in available-for-sale financial assets for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Beginning balance	₩	52,495,740	55,446,530
Acquisition		35,834,889	48,549,444
Disposal		(41,195,377)	(44,870,477)
Change due to amortization		(43,484)	(26,940)
Change in fair value		622,762	(348,815)
Impairment loss		(312,006)	(297,810)
Reversal of impairment loss		13,390	44,736
Reclassification		(3,914,346)	(28,301)
Foreign exchange differences		241,152	330,597
Others (*1)		67,906	(6,303,224)
Ending balance	₩	43,810,626	52,495,740

(*1) For the year ended December 31, 2016, others represent the increase in available-for-sale equity securities acquired from Hojeon Limited, Phoenix Materials Co., Ltd., Great New Wave Coming Co., Ltd., IS Dongseo Co., Ltd., i-Components Co., Ltd. and others after exercising conversion rights of the convertible bonds. For the year ended December 31, 2015, others represent Korea Land & Housing Corporation's equity securities amounting to ₩1,200,000 million contributed from the government, available-for-sale equity securities acquired from Nexolon Company Limited, Chinhung International Inc., Taihan Electric Wire Co., Ltd. and others as a result of debt-to-equity swap decision of the Creditor Financial Institutions Committee, based upon the *Corporate Restructuring Promotion Act*, and available-for-sale equity securities acquired from Seobu T&D Co., Ltd., Coson Co., Ltd., Celltrion Pharm Inc., Seegene Inc. and others after exercising conversion rights of the convertible bonds.

As of December 31, 2016 and 2015

(In millions of won)

7. Available-for-Sale Financial Assets, Continued

(3) Equity securities with disposal restrictions in available-for-sale financial assets as of December 31, 2016 and 2015 are as follows:

	December 31, 2016			
Company	Number of shares		Carrying amount	Restricted period
Kumho Tire Co., Inc.	21,339,320	₩	180,957	Undecided
Taihan Electric Wire Co., Ltd.	18,061,894		33,505	Undecided
Ajin P & P Co., Ltd.	516,270		5,282	Undecided
Samho International Co., Ltd.	183,000		3,093	Undecided
Hyundai Cement Co., Ltd. (*1)	2,636,655		72,772	Until December 31, 2017
Jaeyoung Solutec Co., Ltd.	1,962,000		5,415	Until December 31, 2017
Chinhung International Inc.	13,113,200		27,407	Until December 31, 2018
Hanjin Heavy Industries & Construction Co., Ltd.	1,208,588		4,067	Until December 31, 2018
CREA IN Co., Ltd.	14,383		46	Until December 21, 2021
	59,035,310	₩	332,544	

(*1) The number of shares has changed after the decision of debt-to-equity swap and dissolution of disposal restriction for the year ended December 31, 2016.

	December 31, 2015			
Company	Number of shares		Carrying amount	Restricted period
Kukje Machinery Co., Ltd.	3,492,000	₩	10,134	Until December 31, 2016
Kumho Tire Co., Inc.	21,339,320		143,614	Undecided
Taihan Electric Wire Co., Ltd.	19,658,200		45,017	Until October 20, 2016
Jaeyoung Solutec Co., Ltd.	1,962,000		5,386	Until December 31, 2017
Hyundai Cement Co., Ltd.	1,433,800		15,752	Until December 31, 2016
Dongbu Corporation	869,141		8,013	Until March 4, 2016
Chinhung International Inc.	13,113,200		30,160	Until December 31, 2016
Samho International Co., Ltd.	183,000		2,846	Until December 31, 2016
Ajin P & P Co., Ltd.	516,270		5,412	Undecided
Young Gwang Stainless Co., Ltd.	413,000		510	Until December 31, 2016
Oriental Precision & Engineering Co., Ltd. (*1)	8,541,141		18,278	Until December 31, 2016
KPM Tech Co., Ltd.	57,714		338	Until December 31, 2015
Cosmotech Co., Ltd.	11,768,000		2,483	Until December 31, 2016
Force Tec Co., Ltd.	1,428,571		1	Until December 31, 2017
Hanchang Paper Co., Ltd.	3,204,600		4,246	Until December 31, 2016
GMP Co., Ltd.	10,392,000		3,377	Until December 31, 2017
	98,371,957	₩	295,567	

(*1) The number of shares has decreased after the decision of capital reduction for the year ended December 31, 2015.

As of December 31, 2016 and 2015

(In millions of won)

7. Available-for-Sale Financial Assets, Continued

(4) Details of debt securities in available-for-sale financial assets as of December 31, 2016 and 2015 are as follows:

		December 31, 2016		
		Face Value	Acquisition cost	Fair value (carrying amounts)
Government and public bonds in Korean won	₩	4,527,723	4,628,874	4,584,739
Financial bonds in Korean won		2,717,280	2,720,658	2,714,995
Corporate bonds in Korean won		11,097,280	11,091,602	10,862,210
Debt securities denominated in foreign currencies / off shores		6,176,994	7,420,465	6,489,380
	₩	24,519,277	25,861,599	24,651,324

		December 31, 2015		
		Face Value	Acquisition cost	Fair value (carrying amounts)
Government and public bonds in Korean won	₩	5,966,656	6,001,294	6,157,320
Financial bonds in Korean won		8,165,651	8,131,685	8,198,435
Corporate bonds in Korean won		13,562,321	13,536,725	13,287,455
Debt securities denominated in foreign currencies / off shores		6,559,075	7,166,199	6,737,257
	₩	34,253,703	34,835,903	34,380,467

8. Held-to-Maturity Financial Assets

(1) Held-to-maturity financial assets as of December 31, 2016 and 2015 are as follows:

		December 31, 2016		December 31, 2015	
		Amortized cost	Fair value	Amortized cost	Fair value
Held-to-maturity financial assets in Korean won:					
Government and public bonds	₩	2,697,831	2,576,624	4,861	5,421
Corporate bonds		1,365,966	1,326,389	30,071	30,071
Others		102	102	387	387
		4,063,899	3,903,115	35,319	35,879
Held-to-maturity financial assets in foreign currencies / off-shores:					
Debt Securities		1,383,049	1,291,026	23,647	23,647
	₩	5,446,948	5,194,141	58,966	59,526

(2) Changes in held-to-maturity financial assets for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Beginning balance	₩	58,966	38,393
Acquisition		1,208,392	26,203
Redemption		(58,505)	(7,199)
Change due to amortization		(9,675)	98
Impairment loss		-	(31)
Reclassification		4,171,298	-
Foreign exchange differences		76,472	1,167
Acquisition of a subsidiary		-	335
Ending balance	₩	5,446,948	58,966

As of December 31, 2016 and 2015

(In millions of won)

9. Loans and Allowance for Loan Losses

(1) Loans and allowance for loan losses as of December 31, 2016 and 2015 are as follows:

		December 31, 2016		December 31, 2015	
		Amortized cost	Fair value	Amortized cost	Fair value
Loans in Korean won:					
Loans for working capital	₩	46,007,017	44,936,431	45,845,172	44,657,003
Loans for facility development		52,887,706	52,754,501	53,824,148	54,012,487
Loans for households		3,683,614	3,714,611	4,192,700	4,237,869
Inter-bank loans		1,858,881	1,701,366	1,489,295	1,364,068
Others		53,400	53,400	53,400	53,400
		104,490,618	103,160,309	105,404,715	104,324,827
Loans in foreign currencies:					
Loans		15,733,488	16,285,963	15,625,112	16,351,543
Inter-bank loans		943,731	944,007	2,790,715	2,705,834
Loans from foreign borrowings		194,165	199,922	206,279	212,231
Off-shore loans		10,588,310	10,923,111	8,828,131	9,215,443
		27,459,694	28,353,003	27,450,237	28,485,051
Other loans:					
Bills bought in foreign currency		1,709,887	1,662,401	1,712,052	1,671,105
Advances for customers on acceptances and guarantees		185,534	98,547	197,547	113,163
Privately placed corporate bonds		3,471,827	2,908,602	4,399,748	4,233,563
Credit card loans		111,532	110,463	111,600	110,707
Others		10,426,364	10,182,607	7,742,187	7,607,640
		15,905,144	14,962,619	14,163,134	13,736,178
		147,855,456	146,475,932	147,018,086	146,546,056
Less:					
Allowance for loan losses		(3,063,671)		(4,550,241)	
Present value discount		(269,248)		(23,575)	
Deferred loan origination costs and fees		(6,323)		(4,039)	
	₩	144,516,214		142,440,231	

As of December 31, 2016 and 2015

(In millions of won)

9. Loans and Allowance for Loan Losses, Continued

(2) Changes in allowance for loan losses for the years ended December 31, 2016 and 2015 are as follows:

		2016						
		Loans in Korean won			Other loans			
		Loans for working capital	Loans for facility development	Others	Loans in foreign currencies	Privately placed corporate bonds	Others	Total
Beginning balance	₩	1,956,776	613,708	156,971	566,841	642,340	613,605	4,550,241
Provision for loan losses		1,630,638	371,849	(390)	190,580	408,609	83,120	2,684,406
Write-offs		(658,851)	(151,573)	(2,263)	(224,859)	(332,574)	(134,579)	(1,504,699)
Foreign exchange differences		-	-	-	42,648	6	12,031	54,685
Others		(1,925,802)	(290,489)	244	(110,361)	(188,854)	(205,700)	(2,720,962)
Ending balance	₩	1,002,761	543,495	154,562	464,849	529,527	368,477	3,063,671

		2015						
		Loans in Korean won			Other loans			
		Loans for working capital	Loans for facility development	Others	Loans in foreign currencies	Privately placed corporate bonds	Others	Total
Beginning balance	₩	1,069,795	633,834	160,412	210,443	267,232	401,416	2,743,132
Provision for loan losses		1,391,624	379,289	6,457	361,103	437,339	400,885	2,976,697
Write-offs		(236,973)	(209,967)	(9,895)	(104,339)	(3,668)	(192,347)	(757,189)
Foreign exchange differences		-	-	-	(4,841)	355	14,893	10,407
Disposal of subsidiaries		-	(49,128)	(2)	-	-	(43,703)	(92,833)
Others		(267,670)	(140,320)	(1)	104,475	(58,918)	32,461	(329,973)
Ending balance	₩	1,956,776	613,708	156,971	566,841	642,340	613,605	4,550,241

(3) Losses related to loans for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Provision for loan losses	₩	(2,684,406)	(2,976,697)
Losses on disposal of loan		(80,132)	(195,088)
	₩	(2,764,538)	(3,171,785)

(4) Changes in deferred loan origination costs and fees for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Beginning balance	₩	(4,039)	1,356
New deferrals		3,640	9,188
Amortization		(5,924)	(14,583)
Ending balance	₩	(6,323)	(4,039)

(In millions of won)

10. Derivative Financial Instruments

The Group's derivative financial instruments consist of trading derivatives and hedging derivatives, depending on the nature of each transaction. The Group enters into hedging derivative transactions mainly for hedging risk related to changes in fair values of the underlying assets and liabilities and future cash flows.

The Group enters into trading derivative transactions such as futures, forwards, swaps and options for arbitrage transactions by speculating on the future value of the underlying asset. Trading derivative transactions include contracts with the Group's clients and its liquidation position.

For hedging the exposure to the variability of fair values and future cash flows of funds in Korean won by changes in interest rate, the Group mainly uses interest swaps or currency swaps. The main counterparties are foreign financial institutions and local banks. In addition, to hedge the exposure to the variability of fair values of bonds in foreign currencies by changes in interest rate or foreign exchange rate, the Group mainly uses interest swaps or currency swaps.

The notional amounts outstanding for derivative contracts and the carrying amounts of the derivative financial instruments as of December 31, 2016 and 2015 are as follows:

		December 31, 2016			
		Notional amounts		Carrying amounts	
		Buy	Sell	Asset	Liability
Trading purpose derivative financial instruments:					
Interest rate	₩	288,371,232	293,240,576	1,766,464	1,627,038
Currency		73,525,875	78,283,957	3,447,173	3,735,210
Stock		321,289	1,053,958	25,671	9,096
Commodities		20,847	20,847	3,061	3,061
Embedded derivatives		713,027	322,510	146,911	6,799
Allowance and other adjustments		-	-	(25,133)	46,993
		362,952,270	372,921,848	5,364,147	5,428,197
Hedging purpose derivative financial instruments:					
Interest rate (*1)		22,725,963	22,747,957	586,498	172,898
Currency		7,475,605	5,765,927	510,975	1,181,590
Allowance and other adjustments		-	-	(494)	(131)
		30,201,568	28,513,884	1,096,979	1,354,357
	₩	393,153,838	401,435,732	6,461,126	6,782,554

(*1) The expected maximum period for which derivative contracts, applied the cash flow hedge accounting, are exposed to risk of cash flow fluctuation is until September 11, 2020.

As of December 31, 2016 and 2015

(In millions of won)

10. Derivative Financial Instruments, Continued

		December 31, 2015			
		Notional amounts		Carrying amounts	
		Buy	Sell	Asset	Liability
Trading purpose derivative financial instruments:					
Interest rate	₩	366,248,473	285,995,396	2,124,326	1,950,965
Currency		69,105,015	67,431,696	2,434,697	2,659,956
Stock		6,046,141	2,570,884	39,614	1,335
Credit		-	323,722	-	-
Commodities		609,427	140,587	26,884	26,884
Embedded derivatives		1,372,485	-	38,332	1,751
Allowance and other adjustments		-	-	(39,381)	(710)
		443,381,541	356,462,285	4,624,472	4,640,181
Hedging purpose derivative financial instruments:					
Interest rate		24,368,948	24,348,948	751,542	48,394
Currency		7,800,904	10,060,207	639,123	1,389,813
Allowance and other adjustments		-	-	(1,461)	(95)
		32,169,852	34,409,155	1,389,204	1,438,112
	₩	475,551,393	390,871,440	6,013,676	6,078,293

As of December 31, 2016 and 2015

(In millions of won)

11. Investments in Associates

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

		December 31, 2016	December 31, 2015
Korea Electric Power Co., Ltd.	₩	23,600,344	21,925,758
Korea Tourism Organization		333,029	329,815
Korea Infrastructure Fund II		233,676	221,782
Hyundai Merchant Marine Co., Ltd. (*1)		138,047	-
Korea Aerospace Industries Co., Ltd. (*2)		-	309,531
Others		3,206,812	3,820,167
	₩	27,511,908	26,607,053

(*1) Hyundai Merchant Marine Co., Ltd. entered into a voluntary agreement for debt restructuring with bank creditors and the Group has obtained significant influence as a main creditor for the year ended December 31, 2016.
(*2) Reclassified as available-for-sale financial assets due to losing significant influence.

(2) The market value of marketable investments in associates as of December 31, 2016 and 2015 are as follows:

		Market value		Carrying amounts	
		December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Korea Electric Power Co., Ltd.	₩	9,304,913	10,561,763	23,600,344	21,925,758
Hyundai Merchant Marine Co., Ltd.		171,957	-	138,047	-
Dongbu Steel Co., Ltd.		138,399	28,100	47,035	4,806
STX Engine Co., Ltd.		63,848	65,485	45,718	57,514
Oriental Precision & Engineering Co., Ltd.		23,867	-	23,867	-
STX corporation		19,638	40,637	-	11,056
Korea Aerospace Industries Co., Ltd. (*1)		-	2,036,772	-	309,531
STX Heavy Industries Co., Ltd. (*1)		-	34,544	-	33,382
Osung LST Co., Ltd. (*1)		-	19,393	-	7,668

(*1) Reclassified as available-for-sale financial assets due to losing significant influence.

As of December 31, 2016 and 2015

(In millions of won)

11. Investments in Associates, Continued

(3) Changes in investments in associates for the years ended December 31, 2016 and 2015 are as follows:

	2016								
	January 1, 2016	Acquisition / transfer	Disposal/ transfer	Share of profit (loss)	Impairment loss	Share of other comprehen-sive income (loss)	Dividends	Others	December 31, 2016
Korea Electric Power Co., Ltd.	₩ 21,925,758	-	-	2,319,302	-	10,113	(654,829)	-	23,600,344
Korea Tourism Organization	329,815	-	-	1,241	-	1,973	-	-	333,029
Hyundai Merchant Marine Co., Ltd.	-	25	-	115,798	-	22,224	-	-	138,047
Korea Aerospace Industries Co., Ltd.	309,531	-	(273,830)	46,609	-	4	(10,298)	(72,016)	-
GM Korea Company	68,115	-	-	(69,995)	-	1,880	-	-	-
Korea Infrastructure Fund II	221,782	18,142	(852)	13,511	-	-	(18,907)	-	233,676
Others (*1)	3,752,052	663,906	(973,169)	298,348	(26,455)	(126,934)	(244,180)	(136,756)	3,206,812
	₩ 26,607,053	682,073	(1,247,851)	2,724,814	(26,455)	(90,740)	(928,214)	(208,772)	27,511,908

(*1) The Group recognized ₩26,455 million as impairment losses considering the decrease in the value in use of cash-generating units due to the decline in expected cash flows as indications of impairment for New Growth Green Future PEF and 14 others for the year ended December 31, 2016 and recognized the value in use of ₩57,657 million as the recoverable amount as of December 31, 2016.

	2015								
	January 1, 2015	Acquisition / transfer	Disposal/ transfer	Share of profit (loss)	Impairment loss	Share of other comprehen-sive income (loss)	Dividends	Others	December 31, 2015
Korea Electric Power Co., Ltd.	₩ 16,044,556	876,511	-	5,049,859	-	50,912	(96,080)	-	21,925,758
Korea Tourism Organization	337,286	-	-	(9,543)	-	2,072	-	-	329,815
Korea Aerospace Industries Co., Ltd.	273,830	-	-	42,017	-	120	(6,436)	-	309,531
Daewoo Shipbuilding & Marine Co., Ltd. (*1)	705,694	382,635	(258,855)	(950,168)	-	120,403	(9,033)	9,324	-
GM Korea Company (*2)	269,472	-	-	(124,548)	(83,821)	7,012	-	-	68,115
Korea Infrastructure Fund II	183,418	37,232	-	11,845	-	-	(10,713)	-	221,782
Others (*3)	3,338,602	936,041	(843,211)	379,110	(14,098)	164,028	(185,555)	(22,865)	3,752,052
	₩ 21,152,858	2,232,419	(1,102,066)	4,398,572	(97,919)	344,547	(307,817)	(13,541)	26,607,053

(*1) There was no balance on Daewoo Shipbuilding & Marine Engineering Co., Ltd. because it was included in the scope of consolidation for the year ended December 31, 2015.
(*2) The Group recognized ₩83,821 million as impairment losses considering the decline in the value in use of the associate, GM Korea Company (amounts ₩68,115 million (using discount rate of 8%)) due to deteriorating of estimated future cash flows.
(*3) The Group recognized ₩14,098 million of impairment losses for UNISON SAVER Private Equity Fund and 10 other companies for the year ended December 31, 2015 and recognized the value in use of ₩18,774 million as the recoverable amount as of December 31, 2015.

As of December 31, 2016 and 2015

(In millions of won)

11. Investments in Associates, Continued

(4) The key financial information of associates invested and ownership ratios as of December 31, 2016 and 2015 are as follows:

December 31, 2016

	Country	Fiscal year end	Industry	Assets	Liabilities	Equity	Operating revenue	Net income (loss)	Total comprehensive income (loss)	Ownership (%)
Korea Electric Power Co., Ltd.	Korea	December	Electricity Generation	₩ 177,837,042	104,786,497	73,050,545	60,190,384	7,048,581	7,041,557	32.90
Korea Tourism Organization	Korea	December	Culture and Tourism administration	1,386,501	368,230	1,018,271	779,874	8,481	7,375	43.58
Hyundai Merchant Marine Co., Ltd.	Korea	December	Shipping	4,398,098	3,419,277	978,821	4,584,810	(485,604)	(413,178)	14.15
GM Korea Company (*1)	Korea	December	Manufacturing	7,058,016	6,990,776	67,240	11,915,647	(835,801)	(827,675)	17.02
Korea Infrastructure Fund II	Korea	December	Financial investment	816,600	160	816,440	56,134	49,367	49,367	26.67

December 31, 2015

	Country	Fiscal year end	Industry	Assets	Liabilities	Equity	Operating revenue	Net income (loss)	Total comprehensive income (loss)	Ownership (%)
Korea Electric Power Co., Ltd.	Korea	December	Electricity Generation	₩ 175,257,359	107,314,884	67,942,475	58,957,722	13,289,127	13,308,132.	32.90
Korea Tourism Organization	Korea	December	Culture and Tourism administration	1,345,127	364,848	980,279	728,583	(12,637)	(17,143)	43.58
Korea Aerospace Industries Co., Ltd.	Korea	December	Manufacturing	2,712,295	1,540,443	1,171,852	2,901,032	180,566	159,491	26.75
GM Korea Company (*1)	Korea	December	Manufacturing	7,683,488	6,790,687	892,801	12,565,528	(748,301)	(710,502)	17.02
Korea Infrastructure Fund II	Korea	December	Financial investment	780,028	6,158	773,870	50,521	42,551	42,551	26.67

(*1) Equity method is applied to GM Korea Company, even though the Group's ownership is less than 20%, because the Group is considered to have significant influence over GM Korea Company by having rights to elect board of directors, etc. The Group used the financial statements of GM Korea Company as of September 30, 2016 in applying the equity method since the Group was not able to obtain the financial statements as of December 31, 2016. The Group made adjustments for the effects of any significant events or transactions occurred between the date of the investee's financial statements and the date of the Group's consolidated financial statements.

As of December 31, 2016 and 2015

(In millions of won)

12. Property and Equipment

Changes in property and equipment for the years ended December 31, 2016 and 2015 are as follows:

	2016						
	January 1, 2016	Acquisition/ depreciation	Disposal	Reclassifi-cation	Foreign exchange differences	Others	December 31, 2016
Acquisition cost:							
Land	₩ 2,819,293	1,174	(25,153)	(8,344)	16	(175,746)	2,611,240
Buildings and structures	3,648,189	12,286	(101,970)	13,046	137	(85,160)	3,486,528
Leasehold improvements	46,878	3,165	(3,384)	24	(271)	-	46,412
Vehicles	386,993	14,031	(1,301)	-	(18,821)	(5,473)	375,429
Equipment	789,863	43,596	(8,705)	2,347	(14,428)	(6,274)	806,399
Construction in progress	976,325	272,569	(114,346)	(368,846)	(43,930)	(49,957)	671,815
Others	2,162,865	87,642	(18,248)	53,018	(54,232)	(60,169)	2,170,876
	10,830,406	434,463	(273,107)	(308,755)	(131,529)	(382,779)	10,168,699
Accumulated depreciation: (*1)							
Buildings and structures	1,142,094	18	(675)	(331)	236	(1,159)	1,140,183
Leasehold improvements	31,340	6,016	(2,982)	-	(379)	-	33,995
Vehicles	235,103	23,457	(83)	-	(18,333)	-	240,144
Equipment	573,227	45,839	(4,120)	(42)	(15,211)	-	599,693
Others	1,205,516	108,545	(11,110)	-	(48,305)	-	1,254,646
	3,187,280	183,875	(18,970)	(373)	(81,992)	(1,159)	3,268,661
Accumulated impairment losses:							
Land	3,086	9	-	96	-	-	3,191
Buildings and structures	118,864	68,756	-	(2,722)	-	(2,384)	182,514
Leasehold improvements	298	-	-	-	-	-	298
Vehicles	15,468	322	-	(305)	-	-	15,485
Equipment	2,263	1,985	-	(547)	-	(93)	3,608
Construction in progress	51,652	82,816	-	(51,466)	-	-	83,002
Others	27,642	5,009	-	(1,171)	-	2,477	33,957
	219,273	158,897	-	(56,115)	-	-	322,055
	₩ 7,423,853	91,691	(254,137)	(252,267)	(49,537)	(381,620)	6,577,983

	2015						
	January 1, 2015	Acquisition/ depreciation	Disposal	Reclassifi-cation	Foreign exchange differences	Others	December 31, 2015
Acquisition cost:							
Land	₩ 598,777	560	(1,060)	(171,195)	12	2,392,199	2,819,293
Buildings and structures	754,112	4,930	(57)	(113,115)	2,288	3,000,031	3,648,189
Leasehold improvements	38,244	11,024	(2,053)	(457)	120	-	46,878
Vehicles	105,269	45,797	(660)	(1,093)	(762)	238,442	386,993
Equipment	351,727	13,802	(1,394)	(157,525)	468	582,785	789,863
Construction in progress	338,937	368,051	-	(124)	12,700	256,761	976,325
Others	503,679	200,214	(1,592)	(43,684)	(3,990)	1,508,238	2,162,865
	2,690,745	644,378	(6,816)	(487,193)	10,836	7,978,456	10,830,406
Accumulated depreciation: (*1)							
Buildings and structures	255,144	19,218	(658)	(43,143)	607	910,926	1,142,094
Leasehold improvements	26,902	6,525	(1,365)	(558)	(164)	-	31,340
Vehicles	77,593	14,862	(358)	(698)	(4)	143,708	235,103
Equipment	296,996	16,528	(659)	(142,128)	(61)	402,551	573,227
Others	372,933	44,587	(421)	(2,202)	(33)	790,652	1,205,516
	1,029,568	101,720	(3,461)	(188,729)	345	2,247,837	3,187,280
Accumulated impairment losses:							
Land	3,088	-	-	(2)	-	-	3,086
Buildings and structures	2,361	-	-	-	-	116,503	118,864
Leasehold improvements	298	-	-	-	-	-	298
Vehicles	-	-	-	-	-	15,468	15,468
Equipment	-	1	(1)	-	-	2,263	2,263
Construction in progress	-	-	-	-	-	51,652	51,652
Others	-	-	-	-	-	27,642	27,642
	5,747	1	(1)	(2)	-	213,528	219,273
	₩ 1,655,430	542,657	(3,354)	(298,462)	10,491	5,517,091	7,423,853

(*1) The amounts include government subsidies.

As of December 31, 2016 and 2015

(In millions of won)

13. Investment Property

Changes in investment property for the years ended December 31, 2016 and 2015 are as follows:

2016		January 1, 2016	Acquisition/ depreciation/ impairment	Disposal	Reclassification	Disposal of a subsidiary	Others	December 31, 2016
Acquisition cost:								
Land	₩	170,911	-	(1,724)	110,268	-	-	279,455
Buildings and structures		219,212	-	(1,580)	16,900	-	-	234,532
		390,123	-	(3,304)	127,168	-	-	513,987
Accumulated depreciation:								
Buildings and structures		82,093	5,728	-	331	1,159	129	89,440
Accumulated impairment losses:								
Land		3,024	344	-	(560)	-	-	2,808
Buildings and structures		1,820	1,198	-	-	-	(1,198)	1,820
		4,844	1,542	-	(560)	-	(1,198)	4,628
	₩	303,186	(7,270)	(3,304)	127,397	(1,159)	1,069	419,919

2015		January 1, 2015	Acquisition/ depreciation	Disposal	Reclassification	Acquisition of a subsidiary	Others	December 31, 2015
Acquisition cost:								
Land	₩	209,551	-	(3,390)	(35,296)	(6,029)	6,075	170,911
Buildings and structures		238,574	-	-	(37,098)	6,871	10,865	219,212
		448,125	-	(3,390)	(72,394)	842	16,940	390,123
Accumulated depreciation:								
Buildings and structures		89,666	4,947	-	(17,308)	1,141	3,647	82,093
Accumulated impairment losses:								
Land		3,247	-	(225)	-	2	-	3,024
Buildings and structures		1,820	-	-	-	-	-	1,820
		5,067	-	(225)	-	2	-	4,844
	₩	353,392	(4,947)	(3,165)	(55,086)	(301)	13,293	303,186

The fair value of the Group's investment property, as determined based on valuation by an independent appraiser, amounts to ₩427,668 million and ₩347,661 million as of December 31, 2016 and 2015, respectively. Additionally, fair value of investment in property is classified as level 3 according to the fair value hierarchy in Note 49.

As of December 31, 2016 and 2015

(In millions of won)

14. Intangible Assets

Changes in intangible assets for the years ended December 31, 2016 and 2015 are as follows:

	2016								
	January 1, 2016	Acquisition	Disposal	Reclassification	Amortization	Impairment loss	Foreign exchange differences	Others	December 31, 2016
Goodwill	₩ 609,395	-	-	-	-	(23,464)	(1,061)	-	584,870
Customers related	504,053	-	-	-	(63,377)	(27,841)	-	(23,134)	389,701
Membership	76,038	68	(250)	(22,443)	(742)	(11,770)	-	-	40,901
Others	1,937,007	60,267	(20,486)	3,872	(212,046)	(315,856)	(223)	(506,125)	946,410
	₩ 3,126,493	60,335	(20,736)	(18,571)	(276,165)	(378,931)	(1,284)	(529,259)	1,961,882

	2015								
	January 1, 2015	Acquisition	Disposal	Reclassification	Amortization	Impairment loss	Foreign exchange differences	Others	December 31, 2015
Goodwill	₩ 853,755	-	-	(27,379)	-	(128,153)	-	(88,828)	609,395
Customers related	562,321	-	-	-	(96,681)	-	-	38,413	504,053
Membership	80,451	1,420	(1,176)	(5,946)	-	(2,552)	2	3,839	76,038
Others	1,266,239	22,456	(57,939)	(48,766)	(169,782)	-	1,345	923,454	1,937,007
	₩ 2,762,766	23,876	(59,115)	(82,091)	(266,463)	(130,705)	1,347	876,878	3,126,493

15. Other Assets

Other assets as of December 31, 2016 and 2015 are as follows:

	December 31, 2016	December 31, 2015
Accounts receivable	₩ 6,123,925	6,307,573
Domestic exchange receivables	1,311,253	566,624
Accrued income	713,645	690,842
Guarantee deposits	463,114	448,582
Trade accounts receivables	9,669,408	9,980,433
Inventories	2,310,386	3,299,207
Prepaid expenses	490,221	528,619
Advance payments	1,375,620	1,644,068
Deferred acquisition cost	597,076	613,219
Separate account assets	1,164,529	1,025,639
Financial guarantee asset	32,713	34,870
Others	233,417	357,190
	24,485,307	25,496,868
Allowance for credit losses	(2,528,828)	(1,408,321)
Present value discount	(3,733)	(5,836)
Present value premium	-	99
	₩ 21,952,746	24,082,808

The carrying amounts of financial assets included in other assets above amounted to ₩18,314,057 million and ₩18,417,653 million as of December 31, 2016 and 2015, respectively, and their fair value amounted to ₩18,117,139 million and ₩18,425,776 million as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015

(In millions of won)

16. Assets and Liabilities Held for Sale and Discontinued Operation

(1) Assets and liabilities held for sale as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Assets held for sale			
Assets for disposal group (*1)	₩	247,994	33,052,870
Property and equipment (*2)		400,930	593,904
Others (*3)		76,400	2,372
		725,324	33,649,146
Liabilities held for sale			
Asset for disposal group (*1)	₩	115,090	30,281,386

(*1) Disposal group as of December 31, 2016 consists of land and others held for sale by Daewoo Shipbuilding & Marine Engineering Co., Ltd., and Mirae Asset Daewoo Co., Ltd. and Multi Asset Global Investments Co., Ltd., which were subsidiaries, classified as assets and liabilities held for sale as of December 31, 2015.

(*2) Property and equipment as of December 31, 2015 was held by Daewoo Engineering & Construction Co., Ltd. and Daewoo Shipbuilding & Marine Engineering Co., Ltd. for sale and assets held by Daewoo Shipbuilding & Marine Engineering Co., Ltd. were sold during the current year.

(*3) Others consist of investments in associates and other receivables, which are planned to be sold.

(2) Discontinued operations

(i) The contents of discontinued operations

The Group issued the public notice for the block sale of Mirae Asset Daewoo Co., Ltd. and Multi Asset Global Investments Co., Ltd. on October 8, 2015. The Group entered into the stock purchase agreement contract with Mirae Asset Securities Co., Ltd. on March 18, 2016 and completed sale procedures on April 7, 2016. Accordingly, the Group has reclassified the profit or loss from Mirae Asset Daewoo Co., Ltd. and Multi Asset Global Investments Co., Ltd. as profit from discontinued operations and has restated the comparative consolidated statements of comprehensive income for the year ended December 31, 2015.

(ii) Profit and cash flows of discontinued operations for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Profit of discontinued operations:			
Profit before income tax of discontinued operations	₩	397,443	72,585
Income tax expense		102,679	15,875
		294,764	56,710
Net cash flow of discontinued operations:			
Cash flow from operating activities		-	(1,466,419)
Cash flow from investing activities		-	244,772
Cash flow from financing activities		-	1,351,408
		-	129,761

As of December 31, 2016 and 2015

(In millions of won)

17. Financial Liabilities Designated at Fair Value Through Profit or Loss

(1) Financial liabilities designated at fair value through profit or loss as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Borrowings	₩	-	3,180
Debentures		1,893,077	1,619,438
	₩	1,893,077	1,622,618

Borrowings designated at FVTPL consist of equity-index-linked securities. Through designating embedded derivatives and host contracts as FVTPL items, changes in fair value of hybrid instruments are recognized in profit or loss. Changes in fair value of structured debentures which hedge accounting are applied, are recognized in profit or loss, but structured debentures with no hedge accounting applied to, are measured at amortized costs. Therefore, such structured debentures, not applied to hedge accounting, have been designated at FVTPL to eliminate mismatch in measurements of accounting profit and loss.

(2) The difference between the carrying amount and contractual cash flow amount of financial liabilities designated at fair value through profit or loss as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Carrying amount	₩	1,893,077	1,622,618
Contractual cash flow amount		1,741,000	1,408,665
Difference	₩	152,077	213,953

18. Deposits

Deposits as of December 31, 2016 and 2015 are as follows:

		December 31, 2016		December 31, 2015	
		Amortized cost	Fair value	Amortized cost	Fair value
Deposits in Korean won:					
Demand deposits	₩	83,430	83,430	221,008	221,008
Time and savings deposits		29,833,930	29,860,350	34,448,654	34,488,016
Certificates of deposit		2,198,966	2,199,012	515,350	515,515
		32,116,326	32,142,792	35,185,012	35,224,539
Deposits in foreign currencies:					
Demand deposits		2,011,234	2,010,972	1,772,639	1,772,639
Time and savings deposits		1,515,835	1,503,630	1,323,491	1,322,021
Certificates of deposit		3,296,554	3,298,858	3,031,446	3,035,776
		6,823,623	6,813,460	6,127,576	6,130,436
Off-shore deposits in foreign currencies:					
Demand deposits		458,121	458,121	118,913	118,913
	₩	39,398,070	39,414,373	41,431,501	41,473,888

As of December 31, 2016 and 2015

(In millions of won)

19. Borrowings

(1) Borrowings as of December 31, 2016 and 2015 are as follows:

	December 31, 2016			
	Minimum interest rate	Maximum interest rate	Amortized cost	Fair value
Borrowings in Korean won	-	3.65%	₩ 7,224,531	7,232,050
Borrowings in foreign currencies	-	7.05%	14,410,698	14,522,087
Off-shore borrowings in foreign currencies	0.19%	4.32%	1,996,352	2,001,034
Share capital repayable on demand	-	-	1,673,842	1,673,842
Others	0.25%	6.55%	5,901,878	5,906,970
			31,207,301	31,335,983
Present value discount			(1,399)	
Deferred borrowing costs			(2,539)	
			₩ 31,203,363	

	December 31, 2015			
	Minimum interest rate	Maximum interest rate	Amortized cost	Fair value
Borrowings in Korean won	-	5.00%	₩ 10,686,195	10,613,561
Borrowings in foreign currencies	-	5.05%	14,958,010	15,065,709
Off-shore borrowings in foreign currencies	0.19%	4.27%	1,093,005	1,096,239
Share capital repayable on demand	-	-	1,857,985	1,857,985
Others	0.07%	6.55%	5,032,118	5,026,262
			33,627,313	33,659,756
Present value discount			(47,610)	
Deferred borrowing costs			(3,488)	
			₩ 33,576,215	

As of December 31, 2016 and 2015

(In millions of won)

19. Borrowings, Continued

(2) Borrowings in Korean won before adjusting for deferred borrowing costs as of December 31, 2016 and 2015 are as follows:

Lender	Classification	Annual interest rate (%)		December 31, 2016	December 31, 2015
The Bank of Korea	Borrowings from Bank of Korea	0.50 ~ 0.75	₩	915,418	4,069,430
Ministry of Strategy and Finance	Borrowings from government fund (*1)	0.29 ~ 0.80		322,021	405,230
Industrial Bank of Korea	Borrowings from industrial technology fund	0.60 ~ 1.00		3,807	3,819
Small & Medium Business Corp.	Borrowings from small and medium enterprise promotion fund	1.27 ~ 3.41		132,852	177,231
Ministry of Culture and Tourism	Borrowings from tourism promotion fund	0.05 ~ 2.50		2,246,926	1,855,349
Korea Energy Management Corporation	Borrowings from fund for rational use of energy	0.25 ~ 3.65		781,837	986,247
Local governments	Borrowings from local small and medium enterprise promotion fund	0.20 ~ 3.50		69,685	78,605
Others	Borrowings from environment improvement support fund and others	0.00 ~ 3.35		2,751,985	3,110,284
			₩	7,224,531	10,686,195

(*1) Borrowings from government fund are subordinated borrowings.

As of December 31, 2016 and 2015

(In millions of won)

19. Borrowings, Continued

(3) Borrowings and off-shore borrowings in foreign currencies before adjusting for deferred borrowing costs as of December 31, 2016 and 2015 are as follows:

Lender	Classification	Annual interest rate (%)		December 31, 2016	December 31, 2015
Japan Bank for International Cooperation (JBIC)	Borrowings from JBIC	1.73 ~ 2.16	₩	194,165	206,279
Mizuho and others	Bank loans from foreign funds	3M Libor+0.33 ~ 3M Libor+0.78		1,377,690	1,511,880
Ministry of Strategy and Finance	Exchange equalization fund borrowings in foreign currencies	3M Libor+0.22 ~ 3M Libor+0.74		2,902,757	2,550,122
Central Bank of the Republic Uzbekistan and others	Off-shore short term borrowings	0.19 ~ 1.34		1,383,257	686,481
		3M Telerate+0.40		36,255	35,160
				1,419,512	721,641
HSBC and others	Off-shore long term borrowings	3M Libor+0.35 ~ 3M Libor+0.62		483,400	341,601
JBIC	Off-shore borrowings from JBIC	1.79 ~ 4.32		27,619	62,538
		-		-	33,481
				27,619	96,019
Others	Short term borrowings in foreign currencies	0.00 ~ 7.05		8,219,191	7,259,455
	Long term borrowings in foreign currencies	0.20 ~ 2.97		1,782,716	3,364,018
			₩	16,407,050	16,051,015

As of December 31, 2016 and 2015

(In millions of won)

20. Debentures

Debentures as of December 31, 2016 and 2015 are as follows:

	December 31, 2016			
	Minimum interest rate	Maximum interest rate	Amortized cost	Fair value
Debentures in Korean won:				
Debentures	1.27%	7.16%	₩ 96,843,958	97,728,110
Discount on debentures			(59,543)	
Valuation adjustment for fair value hedges			(26,507)	
			96,757,908	
Debentures in foreign currencies:				
Debentures	0.04%	8.20%	15,084,899	14,902,677
Discount on debentures			(42,675)	
Valuation adjustment for fair value hedges			(166,884)	
			14,875,340	
Off-shore debentures:				
Debentures	0.04%	7.73%	10,466,035	10,307,645
Discount on debentures			(23,165)	
Valuation adjustment for fair value hedges			(186,006)	
			10,256,864	
			₩ 121,890,112	122,938,432

	December 31, 2015			
	Minimum interest rate	Maximum interest rate	Amortized cost	Fair value
Debentures in Korean won:				
Debentures	1.54%	7.29%	₩ 95,690,877	97,529,265
Discount on debentures			(45,267)	
Valuation adjustment for fair value hedges			90,784	
			95,736,394	
Debentures in foreign currencies:				
Debentures	0.21%	8.20%	16,313,176	16,097,547
Discount on debentures			(33,587)	
Premium on debentures			4,859	
Valuation adjustment for fair value hedges			(180,831)	
			16,103,617	
Off-shore debentures:				
Debentures	0.45%	7.02%	9,947,109	9,831,180
Discount on debentures			(23,891)	
Premium on debentures			4,145	
Valuation adjustment for fair value hedges			(150,345)	
			9,777,018	
			₩ 121,617,029	123,457,992

As of December 31, 2016 and 2015

(In millions of won)

21. Policy Reserves

Details of policy reserves categorized by insurance type as of December 31, 2016 and 2015 are as follows:

	Account		December 31, 2016	December 31, 2015
Premium reserve	Pure endowment	₩	4,566,124	4,048,798
	Death		4,633,008	4,196,558
	Endowment		4,402,421	3,846,129
	Group		32,158	33,032
			13,633,711	12,124,517
Unearned premium reserve	Pure endowment		2	2
	Death		237	279
	Group		2,804	2,190
			3,043	2,471
Reserve for outstanding claims	Pure endowment		94,239	81,227
	Death		300,350	298,943
	Endowment		321,448	253,131
	Group		6,007	6,413
			722,044	639,714
Reserve for participating policyholders' dividends	Pure endowment		26,858	22,525
	Death		4,750	5,476
	Endowment		2,202	2,417
	Group		26	63
			33,836	30,481
Excess participating policyholders' dividend reserve			13,047	10,790
Guaranteed benefit reserve			28,299	22,031
		₩	14,433,980	12,830,004

22. Defined Benefit Liabilities

(1) Details of defined benefit liabilities as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Present value of defined benefit obligation	₩	1,201,376	1,274,144
Fair value of plan assets (*1)		(812,823)	(843,674)
Liabilities for other long-term employment benefits		32,044	41,627
	₩	420,597	472,097

(*1) The plan assets are in trusts with Kookmin Bank, Samsung Life Insurance Co., Ltd., etc.

As of December 31, 2016 and 2015

(In millions of won)

22. Defined Benefit Liabilities, Continued

(2) Changes in defined benefit liabilities for the years ended December 31, 2016 and 2015 are as follows:

		2016			
		Present value of defined benefit obligation	Fair value of plan assets	Liabilities for other long-term employment benefits	Defined benefit liabilities
Beginning balance	₩	1,274,144	(843,674)	41,627	472,097
Current service costs		174,308	-	-	174,308
Past service costs		300	-	-	300
Interest expense (income)		32,648	(10,013)	-	22,635
Remeasurements of defined benefit liabilities:					
Demographic assumption		5,568	-	-	5,568
Financial assumption		(44,573)	2,619	-	(41,954)
Return on plan assets		-	(17,082)	-	(17,082)
		(39,005)	(14,463)	-	(53,468)
Payments from the plan		(167,697)	19,884	-	(147,813)
Contributions to the plan		(4,548)	(61,543)	-	(66,091)
Others		(68,774)	96,986	(9,583)	18,629
Ending balance	₩	1,201,376	(812,823)	32,044	420,597

		2015			
		Present value of defined benefit obligation	Fair value of plan assets	Liabilities for other long-term employment benefits	Defined benefit liabilities
Beginning balance	₩	624,689	(376,143)	-	248,546
Current service costs		85,832	-	-	85,832
Past service costs		12,381	-	-	12,381
Interest expense (income)		22,410	(9,278)	-	13,132
Remeasurements of defined benefit liabilities:					
Demographic assumption		(30,636)	-	-	(30,636)
Financial assumption		71,277	2,295	-	73,572
Return on plan assets		-	2,786	-	2,786
		40,641	5,081	-	45,722
Payments from the plan		(44,656)	22,876	-	(21,780)
Contributions to the plan		(1,326)	(141,408)	-	(142,734)
Acquisition of Subsidiaries		531,108	(345,568)	41,627	227,167
Effects from changes in foreign currency exchange rate		7	-	-	7
Reclassified to liabilities held for sale		(4,414)	4,190	-	(224)
Others		7,472	(3,424)	-	4,048
Ending balance	₩	1,274,144	(843,674)	41,627	472,097

As of December 31, 2016 and 2015

(In millions of won)

22. Defined Benefit Liabilities, Continued

(3) Fair value of plan assets for each type as of December 31, 2016 and 2015 are as follows:

		December 31, 2016		December 31, 2015	
		Quoted market prices	Unquoted market prices	Quoted market prices	Unquoted market Prices
Equity securities	₩	2,562	-	1,554	-
Debt securities		14,593	-	9,179	-
Due from banks		480,298	284,420	582,281	246,766
Others		30,950	-	3,894	-
	₩	528,403	284,420	596,908	246,766

(4) Defined benefit costs recognized in profit or loss for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Current service costs	₩	174,308	85,832
Past service costs		300	12,381
Interest expense, net		22,635	13,132
	₩	197,243	111,345

(5) The principal actuarial assumptions used as of December 31, 2016 and 2015 are as follows:

	December 31, 2016	December 31, 2015
Discount rate (%)	2.40 ~ 2.99	1.50 ~ 2.93
Future salary increasing rate (%)	1.10 ~ 6.26	2.70 ~ 6.77

(6) The present value sensitivity of defined benefit liabilities as changes in principal actuarial assumptions as of December 31, 2016 is as follows:

	Sensitivity	
	1% increase in assumption	1% decrease in assumption
Discount rate	9.52% decrease	11.29% increase
Future salary increasing rate	10.08% increase	9.33% decrease

As of December 31, 2016 and 2015

(In millions of won)

23. Provisions

(1) Changes in provisions for the years ended December 31, 2016 and 2015 are as follows:

		2016						
		Provision for payment guarantees	Provision for unused commitments	Financial guarantee provision	Lawsuit provision	Restoration liability	Other provision	Total
Beginning balance	₩	515,275	56,521	225,677	18,652	3,969	531,119	1,351,213
Increase (reversal) of provision		(43,437)	(45,714)	(82,202)	97,256	(770)	277,684	202,817
Utilization for the year		-	-	-	-	(95)	(184,492)	(184,587)
Capitalized restoration expenses		-	-	-	-	624	-	624
Foreign exchange differences		38,121	9,604	(175)	13,979	-	393	61,922
Others		131	(2)	(17,693)	8	-	171,219	153,663
Ending balance	₩	510,090	20,409	125,607	129,895	3,728	795,923	1,585,652

		2015						
		Provision for payment guarantees	Provision for unused commitments	Financial guarantee provision	Lawsuit provision	Restoration liability	Other provision	Total
Beginning balance	₩	276,525	45,189	22,069	53,367	8,036	597,375	1,002,561
Increase (reversal) of provision		226,323	48,277	96,265	10,143	(968)	89,416	469,456
Utilization for the year		-	-	-	(145)	(222)	(347,988)	(348,355)
Capitalized restoration expenses		-	-	-	-	853	-	853
Foreign exchange differences		12,427	166	(21)	(797)	-	738	12,513
Acquisition of a subsidiary		-	-	107,364	-	-	149,907	257,271
Reclassified to assets held for sale		-	-	-	(43,917)	(3,730)	(269)	(47,916)
Others		-	(37,111)	-	1	-	41,940	4,830
Ending balance	₩	515,275	56,521	225,677	18,652	3,969	531,119	1,351,213

(2) Provision for payment guarantees and financial guarantee provision

Confirmed acceptances and guarantees, unconfirmed acceptances and guarantees and bills endorsed are not recognized on the statement of financial position, but are disclosed as off-statement of financial position items in the notes to the financial statements. The Group provides a provision for such off-statement of financial position items, applying a Credit Conversion Factor (CCF) and provision rates, and records the provision as a reserve for possible losses on acceptances and guarantees.

In the case of financial guarantee contracts, when the amount calculated using the same method as above is greater than the initial amount less amortization of fees recognised, the difference is recorded as a financial guarantee provision.

(3) Provision for unused commitments

The Group records a provision for a certain portion of unused credit lines which is calculated using a CCF as provision for unused commitments applying provision rates.

As of December 31, 2016 and 2015

(In millions of won)

23. Provisions, Continued

(4) Provision for possible losses from lawsuits

As of December 31, 2016, the Group is involved in 214 lawsuits as a plaintiff and 367 lawsuits as a defendant. The aggregate amounts of claims as a plaintiff and a defendant amounted to ₩1,375,574 million and ₩2,451,916 million, respectively. The Group provided a provision against contingent loss from pending lawsuits as of December 31, 2016 and additional losses may be incurred depending on the final result of pending lawsuits.

Major lawsuits in progress as of December 31, 2016 and 2015 are as follows:

	December 31, 2016		
	Contents	Amounts	Status of lawsuit
Plaintiff:			
Korea Land & Housing Corp.	Claim for debt absence	₩ 67,891	1st trial ruled in favor of the Bank; 2nd trial in progress
Korea Trade Insurance Corporation	Short-term export credit insurance	46,394	1st trial in progress
Hyundai Engineering & Construction Co., Ltd. and two others	Claim for refund of special agreement settlement	30,000	1st trial in progress
Gyeonggi Urban Innovation Corp.	Claim for refund of investments	19,100	1st trial ruled partially in favor of the Bank; 2nd trial in progress
KB Capital Co., Ltd.	Claim for damages	17,795	Supplementary participation
Defendant:			
Hanhwa Chemical Co., Ltd.	Performance guarantee	322,593	Retrial in progress after quashing (*1)
Shinhan Bank and one other	Claim for damages	58,474	1st trial in progress
Korea Land & Housing Corp.	Delivery of stocks and stock transfer, etc.	52,030	1st trial in progress
KAMCO 8th JV Securitization Specialty Co., Ltd.	Claim for refund of impairment sale payment	36,333	1st trial in progress
Gyeonggi Urban Innovation Corp.	Delivery of stocks and stock transfer, etc.	53,660	1st trial ruled against the Bank; 2st trial in progress
Dong E&P A/S	Arbitration for the loss from delivery delays	USD 920,000	Claim statements submitted (*2)

(*1) For the sale of the shares of Daewoo Shipbuilding & Marine Engineering Co., Ltd. that the Bank and Korea Asset Management Corp. (KAMCO) had held, the Bank, KAMCO and Hanhwa Chemical Co., Ltd. (Hanhwa Chemical), which was on behalf of the Hanhwa Consortium, entered into the memorandum of understanding on November 14, 2008, but the memorandum was revoked as reasons attributable to Hanhwa Chemical. Accordingly, the Bank and KAMCO took ₩195 billion and ₩120 billion, respectively, provided by Hanhwa Chemical as the performance guarantee. Relating to the performance guarantee, Hanhwa Chemical brought a law suit but the first and the second trial ruled in favor of the Bank because the courts of the first and the second trial regarded the performance guarantee as a penalty for the breach of the memorandum. On July 14, 2016, the Supreme Court judged unlike the first and the second trial that the performance guarantee was provided to compensate damages and the Bank's taking all the performance guarantee was unfair, and remanded the case to the original court.

(*2) Dong E&P A/S has filed an arbitration claim against contracting parties (Technip France and Daewoo Shipbuilding & Marine Engineering Co., Ltd.) to be compensated for losses caused by delivery delays. Both sides have appointed arbitrators and submitted claim statements to the ad hoc arbitration tribunal in Denmark.

As of December 31, 2016 and 2015

(In millions of won)

23. Provisions, Continued

	December 31, 2015			
	Contents		Amounts	Status of lawsuit
Plaintiff:				
Gyeonggi Urban Innovation Corp.	Claim for refund of investments	₩	19,100	1st trial ruled partially in favor of the Group; 2nd trial in progress
SH Corporation	Claim for damages		9,720	1st trial ruled against the Group; 2nd trial in progress
KB Capital Co., Ltd.	Claim for damages		17,795	1st trial in progress
Korea Trade Insurance Corporation	Short-term export credit insurance		46,394	1st trial in progress
Director of Tongyeong District Tax Office	Tax refund		12,926	1st trial ruled against the Group; 2nd trial in progress
Defendant:				
Hanhwa Chemical Co., Ltd.	Performance guarantee		322,593	1st, 2nd trials ruled in favor of the Group; Pending appeals
Shinhan Bank and one other	Claim for damages		58,474	1st trial in progress
KAMCO 8th JV Securitization Specialty Co., Ltd.	Claim for refund of impairment sale payment		36,333	1st trial in progress
Gyeonggi Urban Innovation Corp.	Delivery of stocks and stock transfer, etc.		24,348	1st trial in progress
Chong Kun Dang Gochon Foundation and others	Claim for damages relating to Guoxian, China		30,414	1st trial ruled partially in favor of the group; 2nd trial in progress
Multiple Individuals and Corporations	Claim for payment of ELS early payback		3,528	
Multiple Individuals and Corporations	Others (Claim for damages regarding entrustment and voluntary transaction)		15,058	
Samsung Life Insurance	Claim for damages		32,970	Remand after quashing
Individuals	Claim for damages regrading residential and commercial complex		17,108	2nd trial in progress

(5) Other provisions

The Group recognised other provisions as a reserve for other miscellaneous purpose.

As of December 31, 2016 and 2015

(In millions of won)

24. Other Liabilities

Other liabilities as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Accounts payable	₩	6,252,669	6,373,365
Accrued expense		2,506,164	2,859,083
Domestic exchange payable		293,303	418,346
Borrowing from trust accounts		715,433	1,237,832
Advance receipts		6,862,405	7,112,095
Guarantee money received		560,102	610,502
Trade payable		1,144,605	1,864,300
Unearned income		298,320	267,439
Deposits withholding tax		50,486	59,909
Foreign exchanges payable		15,311	31,039
Separate account liabilities		1,265,656	1,048,128
Financial guarantee liability		69,542	69,954
Contractor equity adjustments		62,222	76,904
Others		366,151	259,501
		20,462,369	22,288,397
Present value discount		(18,075)	(18,639)
	₩	20,444,294	22,269,758

The carrying amount of financial liabilities included in other liabilities above amounted to ₩11,565,808 million and ₩13,463,809 million as of December 31, 2016 and 2015, respectively, and their fair value amounted to ₩11,534,054 million and ₩13,463,860 million as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015

(In millions of won)

25. Equity

(1) Issued capital
The Group is authorized to issue up to 6,000 million shares of common stock and has 3,508,619,768 shares issued and 3,447,079,768 shares issued as of December 31, 2016 and 2015, respectively, and outstanding with a total par value of ₩17,543,099 million and ₩17,235,399 million as of December 31, 2016 and 2015, respectively.

(2) Capital surplus
Capital surplus as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Paid-in capital in excess of par value	₩	65,079	67,090
Surplus from capital reduction		47,973	47,973
Share of capital surplus of associates		121,146	121,147
Other capital surplus		1,002,468	1,343,026
	₩	1,236,666	1,579,236

(3) Capital adjustments
Capital adjustments as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Discount on stock issuance	₩	-	(547)
Share of capital adjustment of associates		220,606	220,606
Other capital adjustment		(5,370)	5,478
	₩	215,236	225,537

As of December 31, 2016 and 2015

(In millions of won)

25. Equity, Continued

(4) Accumulated other comprehensive income

(i) Accumulated other comprehensive income as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Valuation gain on available-for-sale financial assets:			
Valuation gain on available-for-sale financial assets (before tax)	₩	401,604	817,935
Income tax effect		(102,866)	(221,863)
		298,738	596,072
Share of other comprehensive income of associates:			
Share of other comprehensive income of associates (before tax)		479,477	567,773
Income tax effect		(66,517)	(89,235)
		412,960	478,538
Exchange differences on translation of foreign operations:			
Exchange differences on translation of foreign operations (before tax)		(216,318)	(276,467)
Income tax effect		93,060	106,901
		(123,258)	(169,566)
Valuation loss on cash flow hedge			
Valuation loss on cash flow hedge (before tax)		(15,424)	(22,036)
Income tax effect		3,478	5,193
		(11,946)	(16,843)
Remeasurements of defined benefit liabilities:			
Remeasurements of defined benefit liabilities (before tax)		9,239	(26,531)
Income tax effect		(1,976)	6,552
		7,263	(19,979)
Revaluation surplus:			
Revaluation surplus (before tax)		(3,727)	-
Income tax effect		902	-
		(2,825)	-
Others:			
Others (before tax)		(1,782)	1,969
Income tax effect		3,390	1,811
		1,608	3,780
	₩	582,540	872,002

As of December 31, 2016 and 2015

(In millions of won)

25. Equity, Continued

(ii) Changes in accumulated other comprehensive income for the years ended December 31, 2016 and 2015 are as follows:

		2016			
		January 1, 2016	Increase (Decrease)	Tax Effect	December 31, 2016
Valuation gain on available-for-sale financial assets	₩	596,072	(416,331)	118,997	298,738
Share of other comprehensive income of associates		478,538	(88,295)	22,717	412,960
Exchange differences on translation of foreign operations		(169,566)	60,149	(13,841)	(123,258)
Valuation loss on cash flow hedge		(16,843)	6,612	(1,715)	(11,946)
Remeasurements of defined benefit liabilities		(19,979)	35,770	(8,528)	7,263
Revaluation surplus		-	(3,727)	902	(2,825)
Others		3,780	(3,751)	1,579	1,608
	₩	872,002	(409,573)	120,111	582,540

		2015			
		January 1, 2015	Increase (Decrease)	Tax Effect	December 31, 2015
Valuation gain on available-for-sale financial assets	₩	851,867	(342,537)	86,742	596,072
Share of other comprehensive income of associates		50,865	529,498	(101,825)	478,538
Exchange differences on translation of foreign operations		(220,357)	14,080	36,711	(169,566)
Valuation loss on cash flow hedge		(13,866)	(3,743)	766	(16,843)
Remeasurements of defined benefit liabilities		16,603	(48,435)	11,853	(19,979)
Others		3,920	(243)	103	3,780
	₩	689,032	148,620	34,350	872,002

As of December 31, 2016 and 2015

(In millions of won)

25. Equity, Continued

(5) Retained earnings
In accordance with the *Korea Development Bank Act,* the Bank is required to appropriate at least 40% of net income as a legal reserve. This reserve can be transferred to paid-in capital or offset an accumulated deficit.

In accordance with the *Korea Development Bank Act*, the Bank offsets an accumulated deficit with reserves. If the reserve is insufficient to offset the accumulated deficit, the Korean government is responsible for the deficit.

(i) Retained earnings as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Legal reserve	₩	3,578,770	5,473,906
Voluntary reserve			
Regulatory reserve for credit losses (*1)		1,370,828	1,370,828
Unappropriated retained earnings		4,384,085	2,501,427
	₩	9,333,683	9,346,161

(*1) According to the Article 29(1) and (2) of the *Regulation on Supervision of Banking Business*, the Bank, controlling company, records regulatory reserve for loan losses as of December 31, 2016.

(ii) Changes in legal reserve for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Beginning balance	₩	5,473,906	5,400,519
Transfer from unappropriated retained earnings		-	73,387
Coverage of deficits		(1,895,136)	-
Ending balance	₩	3,578,770	5,473,906

(iii) Changes in unappropriated retained earnings for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Beginning balance	₩	2,501,427	614,652
Profit (loss) for the year		(12,478)	2,070,245
Transfer from (contribution to) legal reserve		1,895,136	(73,387)
Dividends		-	(46,180)
Contribution to regulatory reserve for credit losses		(13,258)	(60,588)
Others		13,258	(3,315)
Ending balance	₩	4,384,085	2,501,427

As of December 31, 2016 and 2015

(In millions of won)

25. Equity, Continued

(6) Regulatory reserve for credit losses
The Group is required to provide regulatory reserve for credit losses in accordance with *Regulation on Supervision of Banking Business 29(1) and (2)*. The details of regulatory reserve for credit losses are as follows:

(i) Regulatory reserve for credit losses as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Beginning balance	₩	1,419,756	1,406,498
Planned provision (reversal) of regulatory reserve for credit losses		(72,134)	13,258
Ending balance	₩	1,347,622	1,419,756

(ii) Required reversal (provision) of regulatory reserve for credit losses and profit (loss) after adjusting regulatory reserve for credit losses for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Profit (loss) for the year	₩	(2,061,645)	2,088,086
Required reversal (provision) of regulatory reserve for credit losses		72,134	(13,258)
Profit (loss) after adjusting regulatory reserve for credit losses	₩	(1,989,511)	2,074,828
Earnings (loss) per share after adjusting regulatory reserve for credit losses (in won)	₩	(574)	621

As of December 31, 2016 and 2015

(In millions of won)

26. Net Interest Income

Net interest income for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Interest income:			
Due from banks	₩	77,875	60,891
Financial assets held for trading		65,939	63,454
Financial assets designated at fair value through profit or loss		8,412	15,083
Available-for-sale financial assets		822,700	957,019
Held-to-maturity financial assets		56,153	2,644
Loans		4,746,588	5,205,527
		5,777,667	6,304,618
Interest expense:			
Financial liabilities designated at fair value through profit or loss		(73,259)	(66,957)
Deposits		(583,965)	(743,147)
Borrowings		(339,250)	(260,034)
Debentures		(2,737,517)	(2,983,497)
		(3,733,991)	(4,053,635)
	₩	2,043,676	2,250,983

27. Net Fees and Commission Income

Net fees and commission income for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Fees and commission income:			
Loan commissions	₩	176,032	206,373
Underwriting and investment consulting commissions		146,092	181,424
Brokerage and agency commissions		7,906	14,977
Trust and retirement pension plan commissions		23,097	38,948
Fees on asset management		2,332	1,471
Other fees		209,147	242,183
		564,606	685,376
Fees and commission expenses:			
Brokerage and agency fees		(14,446)	(13,697)
Other fees		(34,700)	(49,148)
		(49,146)	(62,845)
	₩	515,460	622,531

As of December 31, 2016 and 2015

(In millions of won)

28. Dividend Income

Dividend income for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Financial assets held for trading	₩	2,256	9,978
Available-for-sale financial assets		235,835	209,204
	₩	238,091	219,182

29. Net Gain (Loss) on Financial Assets Held for Trading

Net gain (loss) on financial assets held for trading for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Gains on financial assets held for trading:			
Gains on redemption	₩	3	3
Gains on sale		24,136	28,209
Gains on valuation		1,590	21,853
		25,729	50,065
Losses on financial assets held for trading:			
Losses on redemption		(197)	(592)
Losses on sale		(37,177)	(41,713)
Losses on valuation		(18,023)	(6,439)
Purchase related expenses		(164)	(248)
		(55,561)	(48,992)
	₩	(29,832)	1,073

30. Net Gain (Loss) on Financial Instruments Designated at Fair Value Through Profit or Loss

Net gain (loss) on financial instruments designated at fair value through profit or loss (FVTPL) for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Gains on financial instruments designated at FVTPL:			
Gains on redemption	₩	6,051	3,555
Gains on sale		1,268	436
Gains on valuation		70,834	4,740
		78,153	8,731
Losses on financial instruments designated at FVTPL:			
Losses on redemption		(370)	(589)
Losses on sale		(333)	(7,987)
Losses on valuation		(2,697)	(38,682)
		(3,400)	(47,258)
	₩	74,753	(38,527)

As of December 31, 2016 and 2015

(In millions of won)

31. Net Gain on Available-for-Sale Financial Assets

Net gain on available-for-sale financial assets for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Gains on available-for-sale financial assets:			
Gains on redemption	₩	39,724	2,561
Gains on sale		736,472	817,887
Reversal of impairment losses		13,390	44,736
		789,586	865,184
Losses on available-for-sale financial assets:			
Losses on redemption		(423)	(262)
Losses on sale		(120,007)	(74,759)
Impairment losses		(312,006)	(297,810)
		(432,436)	(372,831)
	₩	357,150	492,353

32. Net Gain on Held-to-Maturity Financial Assets

Net gain on held-to-maturity financial assets for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Gains on held-to-maturity financial assets:			
Gains on redemption	₩	-	52
Gains on sale		100	-
		100	52
Losses on held-to-maturity financial assets:			
Impairment losses		(6)	(31)
	₩	94	21

As of December 31, 2016 and 2015

(In millions of won)

33. Net Gain (Loss) on Derivatives

Net gain (loss) on derivatives for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Net loss on trading purpose derivatives:			
Gains on trading purpose derivatives:			
Interest rate	₩	2,254,583	2,254,625
Currency		8,218,199	5,730,456
Stock		30,640	55,118
Commodities		48,627	103,172
Embedded derivatives		32,319	96,974
Gains on adjustment of derivatives		(33,636)	4,968
		10,550,732	8,245,313
Losses on trading purpose derivatives:			
Interest rate		(2,281,245)	(2,242,854)
Currency		(7,917,747)	(5,704,664)
Stock		(24,497)	(13,126)
Commodities		(48,525)	(102,714)
Embedded derivatives		(163,812)	(13,369)
Losses on adjustment of derivatives		(35,073)	(41,985)
		(10,470,899)	(8,118,712)
		(79,833)	(126,601)
Net loss on hedging purpose derivatives:			
Gains on hedging purpose derivatives:			
Interest rate		53,266	85,823
Currency		1,007,347	495,367
Gains on adjustment of derivatives		884	1,851
		1,061,497	583,041
Losses on hedging purpose derivatives:			
Interest rate		(334,224)	(162,750)
Currency		(1,029,948)	(930,686)
Losses on adjustment of derivatives		(333)	(496)
		(1,364,505)	(1,093,932)
		(303,008)	(510,891)
Net gain on fair value hedged items:			
Gains on fair value hedged items:			
Gains on valuation		488,529	300,534
Gains on redemption		41,373	176,318
		529,902	476,852
Losses on fair value hedged items:			
Losses on valuation		(181,464)	(306,752)
Losses on redemption		(62,435)	(38,297)
		(243,899)	(345,049)
		286,003	131,803
	₩	62,828	(252,487)

Related with cash flow hedge, the Group recognized ₩12 million of gain and ₩123 million of loss in the consolidated statement of comprehensive income as the ineffective portion for the years ended December 31, 2016 and 2015.

As of December 31, 2016 and 2015

(In millions of won)

34. Net Foreign Currency Transaction Gain (Loss)

Net foreign currency transaction gain (loss) for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Net loss on foreign exchange transactions:			
Gains on foreign exchange transactions	₩	1,245,203	889,846
Losses on foreign exchange transactions		(1,386,625)	(903,068)
		(141,422)	(13,222)
Net gain (loss) on foreign exchange translations:			
Gains on foreign exchange translations		1,994,429	2,979,204
Losses on foreign exchange translations		(2,024,800)	(2,520,837)
		(30,371)	458,367
	₩	(171,793)	445,145

35. Other Operating Expense, net

Other operating income (expense) for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Other operating income:			
Insurance gains	₩	3,453,549	3,003,214
Gains on sale of investments in associates		1,643,209	205,150
Gains on sale of loans		115,244	107,146
Gains on demand equity redemption		11,680	88,541
Reversal of provisions		282,052	97,965
Gains on bargain purchase		103	18,702
Income on construction business		11,353,277	9,828,475
Gains on redemption of debentures		76	1
Others		12,603,148	275,296
		29,462,338	13,624,490
Other operating expenses:			
Insurance losses		(4,110,791)	(3,608,995)
Losses on sale of investments in associates		(204,991)	(32,408)
Losses on sale of loans		(195,376)	(302,234)
Losses on demand equity redemption		93,770	(111,363)
Provision for other losses		(1,733,148)	(587,189)
Costs of construction business		(11,373,475)	(9,077,509)
Losses on redemption of debentures		(666)	(510)
Others		(13,572,161)	(416,856)
		(31,096,838)	(14,137,064)
	₩	(1,634,500)	(512,574)

As of December 31, 2016 and 2015

(In millions of won)

36. General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Employee benefits:			
Short-term employee benefits	₩	645,320	512,991
Defined benefit costs		80,379	64,284
Defined contribution costs		3,831	1,680
		729,530	578,955
Depreciation and amortization:			
Depreciation of property and equipment		48,445	46,641
Amortization of intangible assets		264,632	261,552
		313,077	308,193
Other:			
Employee welfare benefits		85,807	75,465
Rent expenses		69,882	59,966
Taxes and dues		53,848	40,327
Advertising expenses		27,445	26,292
Others		646,254	253,478
		883,236	455,528
	₩	1,925,843	1,342,676

As of December 31, 2016 and 2015

(In millions of won)

37. Other Non-Operating Income and Expense

Other non-operating income and expense for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Other non-operating income:			
Interest income of non-financial business	₩	24,930	21,461
Gains on disposal of assets held for sale		11,932	71,048
Gains on disposal of property and equipment		29,749	3,365
Gains on disposal of investment property		403	2,004
Rental income on investment property		6,053	3,831
Gains on disposal of intangible assets		-	55
Others		151,321	77,243
		224,388	179,007
Other non-operating expenses:			
Interest expense of non-financial business		(93,134)	(97,248)
Impairment losses of assets held for sale		(56,281)	(16,622)
Losses on disposal of assets held for sale		(1,020)	(747)
Losses on disposal of property and equipment		(37,648)	(2,081)
Impairment losses of property and equipment		(203,958)	(1)
Depreciation of investment property		(3,262)	(2,614)
Losses on disposal of investment property		(94)	-
Impairment losses of investment property		(1,542)	-
Losses on disposal of intangible property		(668)	(16)
Impairment losses of intangible property		(378,931)	(130,705)
Donations		(12,750)	(10,789)
Others		(217,142)	(60,003)
		(1,006,430)	(320,826)
	₩	(782,042)	(141,819)

As of December 31, 2016 and 2015

(In millions of won)

38. Income Tax Expense

(1) Income tax expenses for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Current income tax	₩	400,462	426,687
Changes in deferred income taxes on temporary differences		696,580	590,112
Deferred income tax recognized directly to equity		124,041	34,862
Income tax expense	₩	1,221,083	1,051,661
Income tax expenses from continuing operations	₩	1,118,404	1,035,787
Income tax expenses from discontinued operations		102,679	15,875

(2) Profit (loss) before income taxes and income tax expenses for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Profit (loss) before income taxes	₩	(1,238,005)	3,067,163
Income taxes calculated using enacted tax rates		(299,596)	742,253
Adjustments:			
Non-deductible losses and tax free gains		(70,315)	21,608
Undisposed accumulated deficit		-	(11,883)
Non-recognition effect of deferred income taxes		1,989,197	159,451
Net adjustments for prior year		4,132	(64,355)
Consolidation adjustments		862,138	-
Others		(1,367,152)	188,713
		1,418,000	293,534
Income tax expenses	₩	1,118,404	1,035,787
Effective tax rate		-	33.77%

As of December 31, 2016 and 2015

(In millions of won)

38. Income Tax Expense, Continued

(3) Changes in deferred income taxes recognized directly to equity for the years ended December 31, 2016 and 2015 are as follows:

		2016				
		December 31, 2016	Deferred tax assets (liabilities)	December 31, 2015	Deferred tax assets (liabilities)	Changes in deferred tax assets (liabilities)
Gains on available-for-sale financial assets	₩	291,634	(100,598)	817,935	(221,863)	121,265
Shares of other comprehensive income of associates		412,959	(66,517)	567,773	(89,235)	22,718
Exchange differences on translation of foreign operations		(123,258)	96,990	(276,467)	106,901	(9,911)
Losses on valuation of cash flow hedge		(11,946)	3,478	(22,036)	5,193	(1,715)
Remeasurements of defined benefit liabilities		7,263	(1,976)	(26,531)	6,552	(8,528)
Others		5,888	2,024	1,969	1,811	213
	₩	582,540	(66,599)	1,062,643	(190,641)	124,042

		2015				
		December 31, 2015	Deferred tax assets (liabilities)	December 31, 2014	Deferred tax assets (liabilities)	Changes in deferred tax assets (liabilities)
Gains on available-for-sale financial assets	₩	817,935	(221,863)	1,160,472	(308,605)	86,742
Shares of other comprehensive income of associates		567,773	(89,235)	36,670	12,078	(101,313)
Exchange differences on translation of foreign operations		(276,467)	106,901	(290,547)	70,190	36,711
Losses on valuation of cash flow hedge		(22,036)	5,193	(18,293)	4,427	766
Remeasurements of defined benefit liabilities		(26,531)	6,552	21,904	(5,301)	11,853
Others		1,969	1,811	2,212	1,708	103
	₩	1,062,643	(190,641)	912,418	(225,503)	34,862

As of December 31, 2016 and 2015

(In millions of won)

38. Income Tax Expense, Continued

(4) Changes in temporary differences and deferred tax assets (liabilities) for the years ended December 31, 2016 and 2015 are as follows:

		2016			
		January 1, 2016	Increase/ decrease	December 31, 2016	Deferred tax assets (liabilities)
Temporary differences from recognized deferred tax assets and liabilities:					
Derivatives	₩	464,907	(222,602)	242,305	58,638
Investments in associates		(11,518,273)	3,338,314	(8,179,959)	(2,579,495)
Valuation gain on available-for-sale financial assets		(133,521)	(59,215)	(192,736)	(11,059)
Impairment losses on debt securities		611,089	(326,474)	284,615	68,877
Impairment losses on equity securities		951,296	(148,118)	803,178	176,072
Others		3,135,886	(1,786,803)	1,349,083	78,160
		(6,488,616)	795,102	(5,693,514)	(2,208,808)
Temporary differences from unrecognized deferred tax assets and liabilities:					
Investments in associates		564,390	2,876,993	3,441,383	-
Undisposed accumulated deficit by deferred corporate taxes:					
Undisposed accumulated deficit		-	153,492	153,492	37,145
	₩	(5,924,226)	3,825,587	(2,098,639)	(2,171,663)

Deferred income tax assets related to discontinued operation decreased by ₩96,133 million during 2016.

		2015			
		January 1, 2015	Increase/ decrease	December 31, 2015	Deferred tax assets (liabilities)
Temporary differences from recognized deferred tax assets and liabilities:					
Derivatives	₩	141,316	323,591	464,907	112,507
Investments in associates		(10,917,203)	(601,070)	(11,518,273)	(2,768,691)
Valuation gain on available-for-sale financial assets		(663,123)	529,602	(133,521)	(32,345)
Impairment losses on debt securities		475,412	135,677	611,089	147,883
Impairment losses on equity securities		1,566,333	(615,037)	951,296	230,214
Others		450,646	2,685,240	3,135,886	739,216
		(8,946,619)	2,458,003	(6,488,616)	(1,571,216)
Temporary differences from unrecognized deferred tax assets and liabilities:					
Investments in associates		60,365	504,025	564,390	-
Undisposed accumulated deficit by deferred corporate taxes:					
Undisposed accumulated deficit		3,051	(3,051)	-	-
	₩	(8,883,203)	2,958,977	(5,924,226)	(1,571,216)

As of December 31, 2016 and 2015

38. Income Tax Expense, Continued

(5) Deferred income tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current income tax liabilities and assets, and they relate to income tax levied by the same tax authority and they intend to settle current income tax liabilities and assets on a net basis.

39. Earnings (loss) per Share

(1) Basic earnings (loss) per share
The Group's basic earnings (loss) per share for the years ended December 31, 2016 and 2015 are computed as follows:

(i) Basic earnings (loss) per share

		2016	2015
Profit (loss) for the year (in won)	₩	(2,061,645,488,249)	2,088,085,994,729
Profit (loss) attributable to non-controlling interests (in won)		(2,049,167,087,859)	17,841,043,611
Profit (loss) attributable to ordinary shareholders of the Group (A) (in won)		(12,478,400,390)	2,070,244,951,118
Profit (loss) from continuing operations (in won)		(413,482,368,940)	2,050,467,826,065
Profit from discontinued operations (in won)		401,003,968,550	19,777,125,053
Weighted average number of ordinary shares outstanding (B)		3,464,257,965	3,342,071,549
Basic earnings (loss) per share (A/B) (in won)	₩	(4)	619
Continuing operations:			
Basic and diluted earnings (loss) per share (in won)		(119)	591
Discontinued operations:			
Basic and diluted earnings per share (in won)		116	28

(ii) Weighted average number of ordinary shares outstanding

	2016		
	Number of ordinary shares	Days	Cumulative shares
Number of ordinary shares outstanding at beginning of the year (A)	3,447,079,768	366	1,261,631,195,088
Increased paid-in capital (B)	10,000,000	156	1,560,000,000
Increased paid-in capital (C)	49,540,000	93	4,607,220,000
Increased paid-in capital (D)	2,000,000	60	120,000,000
Cumulative shares (E=A+B+C+D)			1,267,918,415,088
Weighted average number of ordinary shares outstanding (E/366)			3,464,257,965

	2015		
	Number of ordinary shares	Days	Cumulative shares
Number of ordinary shares outstanding at beginning of the year (A)	3,036,079,768	365	1,108,169,115,320
Increased paid-in capital (B)	400,000,000	275	110,000,000,000
Increased paid-in capital (C)	8,000,000	176	1,408,000,000
Increased paid-in capital (D)	3,000,000	93	279,000,000
Cumulative shares (E=A+B+C+D)			1,219,856,115,320
Weighted-average number of ordinary shares outstanding (E/365)			3,342,071,549

(2) Diluted earnings per share
Diluted and basic earnings per share for the years ended December 31, 2016 and 2015 are equal because there is no potential dilutive instrument.

As of December 31, 2016 and 2015

(In millions of won)

40. Pledged Assets

Assets pledged by the Group as collateral as of December 31, 2016 and 2015 are as follows:

		December 31, 2016		December 31, 2015	
		Pledged assets	Related liabilities	Pledged assets	Related liabilities
Cash and due from banks (*1)	₩	229,759	228,691	1,792,139	200,187
Available-for-sale financial assets (*2)		7,404,574	7,097,121	22,901,986	10,767,386
Others (*3)		6,850,292	3,414,403	4,985,076	1,432,711
	₩	14,484,625	10,740,215	29,679,201	12,400,284

(*1) Pledged as collateral for bidding deposits and others.
(*2) Pledged as collateral for bonds sold under repurchase agreements, BOK loans and back overdrafts.
(*3) Property and equipment, etc. are pledged as collateral for borrowings and new business.

41. Guarantees and Commitments

Guarantees and commitments as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Confirmed acceptances and guarantees:			
Acceptances in foreign currency	₩	662,686	783,984
Guarantees for bond issuance		1,727,380	1,707,829
Guarantees for loans		899,924	1,234,382
Acceptances for foreign loans		200	607
Letter of guarantee		46,430	32,579
Guarantees for on-lending debt		46,719	83,906
Others		5,744,515	7,725,591
		9,127,854	11,568,878
Unconfirmed acceptances and guarantees:			
Letter of credit		2,202,525	1,730,257
Others		754,385	2,057,431
		2,956,910	3,787,688
Commitments:			
Commitments on loans		4,892,786	5,022,249
Commitments on purchase of securities		2,038,545	3,292,066
Others		169,171	189,800
		7,100,502	8,504,115
Bills endorsed:			
With recourse		1,475	-
	₩	19,186,741	23,860,681

As of December 31, 2016 and 2015

(In millions of won)

42. Leases

(1) Finance lease
Details of finance lease receivables of the Group as lessor as of December 31, 2016 and 2015 are as follows:

		December 31, 2016		
		Finance lease receivables in Korean won	Finance lease receivables in foreign currency	Total
Within 1 year	₩	354,504	38,363	392,867
Over 1 year through 5 years		621,071	63,395	684,466
Gross investment in the lease		975,575	101,758	1,077,333
Unearned finance income		(110,231)	(609)	(110,840)
Net investment in the lease	₩	865,344	101,149	966,493
Allowance for credit losses	₩	(8,526)	(1,023)	(9,549)
Contingent rent recognized in the current profit or loss	₩	(28)	-	(28)

		December 31, 2015		
		Finance lease receivables in Korean won	Finance lease receivables in foreign currency	Total
Within 1 year	₩	34,140	139,153	173,293
Over 1 year through 5 years		852,426	19,364	871,790
Gross investment in the lease		886,566	158,517	1,045,083
Unearned finance income		(104,958)	(2,321)	(107,279)
Net investment in the lease	₩	781,608	156,196	937,804
Allowance for credit losses	₩	(21,863)	(43,522)	(65,385)
Contingent rent recognized in the current profit or loss	₩	(11)	-	(11)

Finance lease receivables are included in loans on the consolidated statements of financial position.

As of December 31, 2016 and 2015

(In millions of won)

42. Leases, Continued

(2) Operating lease
Future minimum lease payments under non-cancellable operating leases as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Within 1 year	₩	61,612	79,838
Over 1 year through 5 years		38,732	87,227
	₩	100,344	167,065
Contingent rent recognized in the current profit or loss	₩	(96)	(29)

(3) Cancellable lease
Cancellable lease as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Acquisition cost	₩	3,333	2,035

(4) Advanced payment for leased assets
The amount of capital paid for a new lease that the Group enters into before the commencement of lease term as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Advanced payment for leased assets	₩	9,394	9,795
Allowance for credit losses		(29)	-
	₩	9,365	9,795

(5) Leasehold deposits
The Group withholds collateral money received from the lessees as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Leasehold deposits	₩	285,220	261,047

As of December 31, 2016 and 2015

(In millions of won)

43. Day One Profit or Loss

Changes in deferred day one profit or loss for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Beginning balance	₩	2,560	29,645
New deferrals		124	92,411
Amortization		1,891	(72,407)
Reclassified to assets held for sale		-	(46,811)
Others (end of transaction, etc.)		(3,420)	(278)
Ending balance	₩	1,155	2,560

Deferred day one profit or loss arose from derivative financial instruments at level 3 on the fair value hierarchy.

44. Trust Accounts

(1) Trust accounts as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Accrued trust fees	₩	6,112	4,660
Deposits		44,702	421,762
Borrowings from trust accounts		592,089	1,081,854
Accrued interest on deposits		3,075	10,989

(2) Transactions with trust accounts for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Trust fees	₩	23,538	21,840
Gains on derivatives transactions		-	1,409
Interest expenses on deposits		5,435	3,716
Interest expenses of borrowings from Trust accounts		11,962	11,868

As of December 31, 2016 and 2015

(In millions of won)

45. Related Party Transactions

(1) The Group's related parties as of December 31, 2016 are as follows:

Classification	Corporate name
Associates	Korea Electric Power Co., Ltd., Korea Tourism Organization, Korea Appraisal Board, Korea Maritime Guarantee Co., Ltd., GM Korea Company, Hyundai Merchant Marine Co., Ltd. and 69 others, Troika Resources Investment PEF and 71 others, Korea Investment Advancing Overseas Fund and 84 others
Others	Key management personnel

(2) Significant outstanding balances with related parties as of December 31, 2016 and 2015 are as follows:

	Account		December 31, 2016	December 31, 2015
Associates:				
Korea Electric Power Co., Ltd.	Securities	₩	171,575	289,432
	Loans		125,666	79,865
	Allowances for loan losses		(42)	(34)
	Derivative financial assets		2,856	2,233
	Other assets		288	309
	Deposits		137,016	68,406
	Borrowings		55,899	-
	Derivative financial liabilities		23,595	8,856
	Other liabilities		687	224
	Other provisions		8	9
Korea Aerospace Industries Co., Ltd. (*1)	Loans		-	99,392
	Allowances for loan losses		-	(53)
	Other assets		-	415
	Deposits		-	390
	Other provisions		-	256
Others	Securities		4,813	4,813
	Loans		3,312,375	5,325,926
	Allowances for loan losses		(641,085)	(2,152,018)
	Derivative financial assets		7,857	112,135
	Other assets		10,970	286
	Deposits		1,281,598	817,722
	Derivative financial liabilities		13,051	3,906
	Other liabilities		2,120	6,644
	Other provisions		97,252	262,552

(*1) The Group lost significant influence over the associate during the current year.

As of December 31, 2016 and 2015

(In millions of won)

45. Related Party Transactions, Continued

(3) Significant profit or loss from transactions with related parties for the years ended December 31, 2016 and 2015 are as follows:

	Account		2016	2015
Associates:				
Daewoo Shipbuilding & Marine Engineering Co., Ltd. (*1)	Interest income	₩	-	49,434
	Other operating income		-	244,358
	Interest expenses		-	(2,571)
	Other operating expenses		-	(54,267)
Korea Electric Power Co., Ltd.	Interest income		8,403	21,218
	Fees and commission income, other income		5,958	4,394
	Interest expenses		(1,820)	(2,732)
	Provision for loan losses		(8)	(6)
	Other operating expenses		(13,745)	(9,440)
Korea Aerospace Industries Co., Ltd. (*2)	Interest income		1,857	5,024
	Fees and commission income, other income		421,394	2,614
	Interest expenses		(22)	(33)
	Provision for loan losses		-	(37)
	Other operating expenses		(625)	(319)
Others	Interest income		172,310	274,845
	Fees and commission income, other income		103,743	268,298
	Interest expenses		(7,673)	(6,837)
	Provision for loan losses		(183,482)	(1,629,340)
	Other operating expenses		(167,193)	(245,814)
		₩	1,239,707	(802,598)

(*1) Daewoo Shipbuilding & Marine Engineering Co., Ltd. was included in the Bank's subsidiary for the year ended December 31, 2015.
(*2) Profit or loss incurred while maintaining related party relationships.

(4) Details of guarantees and commitments to the related parties as of December 31, 2016 and 2015 are as follows:

	Account		December 31, 2016	December 31, 2015
Associates:				
Korea Electric Power Co., Ltd.	Confirmed acceptances and guarantees	₩	-	209,773
Korea Aerospace Industries Co., Ltd.	Confirmed acceptances and guarantees		-	540,169
	Unconfirmed acceptances and guarantees		-	102,843
Others	Confirmed acceptances and guarantees		527,923	1,134,625
	Unconfirmed acceptances and guarantees		180,042	867,998
	Loan commitments		258,519	250,111
		₩	966,484	3,105,519

As of December 31, 2016 and 2015

(In millions of won)

45. Related Party Transactions, Continued

(5) Details of compensation to key management personnel for the years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Short-term employee benefits	₩	5,229	4,998
Post-employment benefits		417	706
Share-based payment		-	49
	₩	5,646	5,753

46. Disclosure of Interests in Other Entities

(1) Commitment to financial support for consolidated structured entities
The Group made a commitment on loans for consolidated structured entities as follows:

		December 31, 2016	December 31, 2015
Associates:			
U-BEST 3rd Securitization Specialty Co., Ltd. (*1)	₩	95,900	161,900
K-Five 3rd Securitization Specialty Co., Ltd. (*1)		-	114,700
K-Five 4th Securitization Specialty Co., Ltd. (*1)		200,000	200,000
K-Five 5th Securitization Specialty Co., Ltd. (*1)		100,000	-
Sinoker SF 1st Co., Ltd. (*1)		43,400	43,400
KoFC-KDBC Pioneer Champ 2010-4 Venture Investment Fund (*2)		2,500	2,500
KDBC IP Investment Fund 2 (*2)		3,000	3,000
KDBC Food Industry Investment Fund 1 (*2)		1,280	1,280
	₩	446,080	526,780

(*1) The Group made a commitment on loans for consolidated structured entities. According to the commitment, the Group guarantees loan to s subsidiary when the subsidiary has insufficient working capital.
(*2) KDB Capital Corporation made a loss compensation commitment for some funds as their general partner.

(2) Nature and scope of interests in unconsolidated structured entities
Details of unconsolidated structured entities as of December 31, 2016 and 2015 are as follows:

Type	Characteristics and objective	Financing method
Investment funds and investment trusts (*1)	Investment and distribution	Equity investment and fund operations, etc.
Real estate finance (*2)	Real estate development and infrastructure investment, etc.	Equity investment and credit reinforcement, etc.
Asset-backed securitization	Securitization of underlying assets	Issuance of ABL and ABCP, etc.
Shipping and acquisition finance	Providing funds for acquisition of corporate or ships	Equity investment and fund operations, etc.

(*1) PEF, investment association, beneficiary certificate, etc.
(*2) SPC, PF, SOC, etc.

As of December 31, 2016 and 2015

(In millions of won)

46. Disclosure of Interests in Other Entities, Continued

(3) Nature of related risks
The carrying amount of and maximum exposure to loss from interests in unconsolidated structured entities as of December 31, 2016 and 2015 are as follows:

		December 31, 2016					
		Investment funds and investment trusts	Real estate finance	Asset-backed securitization	Shipping and acquisition finance	Others	Total
Assets:							
Securities	₩	7,619,615	359,672	48,614	-	7,000	8,034,901
Loans		861,650	7,786,668	1,556,757	3,578,849	2,503,717	16,287,641
Derivatives		-	9,726	17,205	10,331	17,542	54,804
Others		7,024	66,532	6,517	5,563	8,286	93,922
		8,488,289	8,222,598	1,629,093	3,594,743	2,536,545	24,471,268
Liabilities:							
Provisions		-	95	2,136	12	3	2,246
Financial guarantees		-	-	20,533	-	1,605	22,138
Derivatives		-	2,665	-	5,570	-	8,235
Others		1,299	71	-	-	-	1,370
		1,299	2,831	22,669	5,582	1,608	33,989
Granting of credit and other commitments		-	98,502	2,423,899	3,904	1,284,726	3,811,031
Maximum exposure to loss (*1)	₩	8,488,289	8,321,100	4,052,992	3,598,647	3,821,271	28,282,299

		December 31, 2015					
		Investment funds and investment trusts	Real estate finance	Asset-backed securitization	Shipping and acquisition finance	Others	Total
Assets:							
Securities	₩	8,364,191	362,473	181,363	49,042	2,657	8,959,726
Loans		519,367	7,307,016	1,774,927	4,115,796	3,809,496	17,526,602
Derivatives		-	18,286	4,688	9,731	20,220	52,925
Others		11,068	19,128	7,259	7,532	8,431	53,418
		8,894,626	7,706,903	1,968,237	4,182,101	3,840,804	26,592,671
Liabilities:							
Provisions		-	136	1,272	15	5	1,428
Financial guarantees		-	-	26,173	-	3,383	29,556
Derivatives		-	-	4	7,233	-	7,237
Others		169	-	-	-	-	169
		169	136	27,449	7,248	3,388	38,390
Granting of credit and other commitments		-	505,334	3,475,677	8,081	816,678	4,805,770
Maximum exposure to loss (*1)	₩	8,894,626	8,212,237	5,443,914	4,190,182	4,657,482	31,398,441

(*1) Maximum exposure to loss is calculated by summarizing related assets (after adjusting impairment loss on securities, allowance for loan losses, etc.), granting of credit and other commitments.

As of December 31, 2016 and 2015

(In millions of won)

46. Disclosure of Interests in Other Entities, Continued

(4) Significant non-controlling interests
Details of significant non-controlling interests and summary of financial information as of December 31, 2016 and 2015 are as follows:

- Non-controlling interests

	December 31, 2016				
	Non-controlling interests ownership		Profit (loss) on non-controlling interests	Non-controlling interests	Dividend to non-controlling interests
Daewoo Engineering & Construction Co., Ltd.	48.66%	₩	(457,708)	1,415,306	-
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	20.96%		(1,439,784)	191,215	-

	December 31, 2015				
	Non-controlling interests ownership		Profit (loss) on non-controlling interests	Non-controlling interests	Dividend to non-controlling interests
Daewoo Engineering & Construction Co., Ltd.	48.66%	₩	(8,346)	1,857,864	-
Mirae Asset Daewoo Co., Ltd.	57.00%		35,912	2,365,506	47,909
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	50.26%		-	496,937	-

As of December 31, 2016 and 2015

(In millions of won)

46. Disclosure of Interests in Other Entities, Continued

- Summary of financial information

	December 31, 2016							
	Assets	Liabilities	Operating revenue	Net income (loss)	Total comprehen-sive loss	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities
Daewoo Engineering & Construction Co., Ltd.	₩ 9,970,246	7,900,336	11,105,930	(735,846)	(703,921)	358,834	(261,757)	174,459
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	15,064,830	14,405,452	13,839,819	(2,734,139)	(2,709,492)	(531,007)	(282,684)	(200,882)

	December 31, 2015							
	Assets	Liabilities	Operating revenue	Net income (loss)	Total comprehen-sive Income (loss)	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities
Daewoo Engineering & Construction Co., Ltd.	₩ 10,152,059	7,321,378	9,935,734	143,292	142,586	685,042	(541,117)	68,975
Mirae Asset Daewoo Co., Ltd.	34,841,940	30,456,640	5,076,963	298,847	292,826	(1,467,437)	245,951	1,351,797
Daewoo Shipbuilding & Marine Engineering Co., Ltd.	18,880,345	18,261,474	17,028,788	(2,097,513)	(1,701,821)	(843,000)	172,116	1,772,907

As of December 31, 2016 and 2015

(In millions of won)

47. Statements of Cash Flows

(1) Cash and cash equivalents in the consolidated statements of cash flows as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Continuing operations:			
Cash and due from banks:			
Cash and foreign currencies	₩	804,988	857,614
Due from banks in Korean won		3,113,760	3,231,970
Due from banks in foreign currencies / off-shores		5,252,455	3,805,210
		9,171,203	7,894,794
Less: Restricted due from banks, others		(2,045,535)	(2,659,740)
Add: Financial instruments reaching maturity within three months from date of acquisition			
Financial assets held for trading:			
Government and public bonds		20,083	110,513
Loans:			
Call loans		4,772,401	2,676,162
Inter-bank loans		355,461	1,252,856
		5,127,862	3,929,018
		5,147,945	4,039,531
Cash and cash equivalents		12,273,613	9,274,585
Discontinued operations:			
Cash and cash equivalents		-	515,999
	₩	12,273,613	9,790,584

(2) Significant transactions not involving cash flows for years ended December 31, 2016 and 2015 are as follows:

		2016	2015
Decrease in loans due to write-offs	₩	1,504,699	757,189
Increase in available-for-sale financial assets due to debt-to-equity swap		67,907	242,588
Increase in accumulated other comprehensive income due to securities valuation		554,321	368,778
Reclassification of available-for-sale financial assets to investments in associates		-	42,653
Reclassification of available-for-sale financial assets to held-to-maturity financial assets		4,171,297	-
Reclassification of investments in associates to available-for-sale financial assets		241,027	2,000
Transfer from investment property to property and equipment		-	6,029
Transfer from property and equipment to investment property		127,396	5,728
Increase of available-for-sale financial assets due to the contribution from the government		-	1,200,000
Increase of investments in associates due to the contribution from the government		-	876,511

As of December 31, 2016 and 2015

(In millions of won)

48. Transfers of Financial Instruments

Details of financial assets and liabilities related to repurchase agreements and loaned debt securities that do not qualify for derecognition as of December 31, 2016 and 2015 are as follows:

		December 31, 2016		December 31, 2015	
Characteristics of transactions		Carrying amounts for transferred assets	Carrying amounts for related liabilities	Carrying amounts for transferred assets	Carrying amounts for related liabilities
Repurchase agreements	₩	2,718,730	1,505,263	2,948,186	2,118,807

As of December 31, 2016 and 2015

(In millions of won)

49. Fair Value of Financial Assets and Liabilities

The Group classifies and discloses fair value of the financial instruments into the following three-level hierarchy:

- Level 1: Financial instruments measured at quoted prices from active markets are classified as level 1.
- Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as level 2.
- Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as level 3.

(1) Fair value hierarchy of financial instruments measured at fair value

(i) The fair value hierarchy of financial instruments measured at fair value as of December 31, 2016 and 2015 are as follows:

		December 31, 2016			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Financial assets held for trading	₩	1,115,354	1,305,478	-	2,420,832
Financial assets designated at FVTPL		-	-	341,303	341,303
Available-for-sale financial assets		6,231,205	24,600,192	12,979,229	43,810,626
Derivative financial assets		104	6,286,836	174,186	6,461,126
	₩	7,346,663	32,192,506	13,494,718	53,033,887
Financial liabilities:					
Financial liabilities designated at FVTPL	₩	-	1,893,077	-	1,893,077
Derivative financial liabilities		1,265	6,714,313	66,976	6,782,554
	₩	1,265	8,607,390	66,976	8,675,631

		December 31, 2015			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Financial assets held for trading	₩	1,119,819	1,394,275	-	2,514,094
Financial assets designated at FVTPL		-	1,376	430,007	431,383
Available-for-sale financial assets		6,022,475	34,305,307	12,167,958	52,495,740
Derivative financial assets		37	5,896,479	117,160	6,013,676
	₩	7,142,331	41,597,437	12,715,125	61,454,893
Financial liabilities:					
Financial liabilities designated at FVTPL	₩	-	1,619,439	3,179	1,622,618
Derivative financial liabilities		59	5,966,237	111,997	6,078,293
	₩	59	7,585,676	115,176	7,700,911

As of December 31, 2016 and 2015

(In millions of won)

49. Fair Value of Financial Assets and Liabilities, Continued

(ii) Changes in the fair value of level 3 financial instruments for the years ended December 31, 2016 and 2015 are as follows:

2016		January 1, 2016	Profit or loss	Other comprehen-sive loss	Acquisition/ Issue	Sale/ Settlement	Others	December 31, 2016
Financial assets:								
Financial assets designated at FVTPL	₩	430,007	10,474	-	185,000	(284,853)	675	341,303
Available-for-sale financial assets		12,167,958	(162,359)	(50,394)	1,913,987	(919,438)	29,475	12,979,229
Derivatives financial assets		117,160	(143,465)	-	286,743	(50,479)	(35,773)	174,186
	₩	12,715,125	(295,350)	(50,394)	2,385,730	(1,254,770)	(5,623)	13,494,718
Financial liabilities:								
Financial liabilities designated at FVTPL	₩	3,179	-	-	-	(3,179)	-	-
Derivatives financial liabilities		111,997	44,172	-	31,942	(4,363)	(116,772)	66,976
	₩	115,176	44,172	-	31,942	(7,542)	(116,772)	66,976

2015		January 1, 2015	Profit or loss	Other comprehen-sive loss	Acquisition/ Issue	Sale/ Settlement	Others	December 31, 2015
Financial assets:								
Financial assets held for trading	₩					(70,817)	70,817	-
Financial assets designated at FVTPL		1,171,424	17,352	-	310,000	(216,195)	(852,574)	430,007
Available-for-sale financial assets		11,028,597	(38,392)	(36,743)	2,148,547	(873,245)	(60,806)	12,167,958
Derivatives financial assets		255,117	(162,268)	-	259,103	(186,134)	(48,658)	117,160
	₩	12,455,138	(183,308)	(36,743)	2,717,650	(1,346,391)	(891,221)	12,715,125
Financial liabilities:								
Financial liabilities designated at FVTPL	₩	5,140,481	150	-	-	(1,929)	(5,135,523)	3,179
Derivatives financial liabilities		215,759	(146,421)	-	322,428	(6,100)	(273,669)	111,997
	₩	5,356,240	(146,271)	-	322,428	(8,029)	(5,409,192)	115,176

49. Fair Value of Financial Assets and Liabilities, Continued

(iii) Details of valuation technique and inputs used in the fair value measurement categorized within level 2 of the fair value hierarchy of financial instruments measured at fair value as of December 31, 2016 and 2015 are as follows:

	Valuation technique	Input
Financial assets held for trading:		
Equity securities	Net asset value approach	Underlying asset price
Debt securities	Discounted cash flow method	Discount rate
Financial assets designated at FVTPL:		
Hybrid instruments	Discounted cash flow method, Option valuation model	Interest rate, stock price, discount rate, etc.
Available-for-sale financial assets:		
Equity securities	Net asset value approach	Underlying asset price
Debt securities	Discounted cash flow method	Discount rate
Derivative financial instruments:		
Interest rate swaps Currency forwards and swaps Currency options Commodities options	Discounted cash flow method, Black-Scholes model, Modified Black model, Formula model	Discount rate, exchange rate, volatility, commodity index, etc.
Financial liabilities designated at FVTPL:		
Debentures	Discounted cash flow method	Discount rate

49. Fair Value of Financial Assets and Liabilities, Continued

(iv) Details of valuation technique and quantitative information about unobservable inputs used in the fair value measurement categorized within level 3 of the fair value hierarchy of financial instruments measured at fair value as of December 31, 2016 and 2015 are as follows:

	Valuation technique	Unobservable input
Financial assets designated at FVTPL:		
Derivatives linked securities	Black-Scholes model, Monte Carlo Simulation, Tree Method, Hull and White model	Volatility, correlation coefficient, discount rate, exchange rate volatility
Available-for-sale financial assets:		
Equity securities	Discounted cash flow method, Risk-adjusted discount rate method, Relative value approach	Discount rate, growth rate, rate of increase in liquidation value, discount rate of rent cash flow, rate of increase in property disposal price, volatility
Derivative financial instruments:		
Interest rate swaps	Discounted cash flow method	Volatility, correlation coefficient
Interest rate options	Modified Black model	Volatility
Stock index options	Black-Scholes model	Volatility
Equity options	Finite difference method	Volatility, correlation coefficient
Financial liabilities designated at FVTPL:		
Borrowings	Finite difference method	Volatility, correlation coefficient

As of December 31, 2016 and 2015

(In millions of won)

49. Fair Value of Financial Assets and Liabilities, Continued

(2) Fair value hierarchy of financial instruments disclosed by fair value

(i) The fair value hierarchy of financial instruments disclosed by fair value as of December 31, 2016 and 2015 are as follows:

		December 31, 2016			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks (*1)	₩	7,125,668	2,045,535	-	9,171,203
Held-to-maturity financial assets		2,576,624	2,617,517	-	5,194,141
Loans (*1)		-	4,724,061	141,751,871	146,475,932
Other financial assets (*1)		-	5,498,670	12,618,469	18,117,139
	₩	9,702,292	14,885,783	154,370,340	178,958,415
Financial liabilities:					
Deposits (*1)	₩	-	2,011,234	37,403,139	39,414,373
Borrowings (*1)		-	4,050,754	27,285,229	31,335,983
Debentures		-	122,938,432	-	122,938,432
Other financial liabilities (*1)		-	4,487,386	7,046,668	11,534,054
	₩	-	133,487,806	71,735,036	205,222,842

		December 31, 2015			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks (*1)	₩	5,235,054	2,659,628	-	7,894,682
Loans (*1)		-	2,632,182	143,913,874	146,546,056
Held-to-maturity financial assets		5,421	54,105	-	59,526
Other financial assets (*1)		-	5,213,763	13,212,013	18,425,776
	₩	5,240,475	10,559,678	157,125,887	172,926,040
Financial liabilities:					
Deposits (*1)	₩	-	1,993,647	39,480,241	41,473,888
Borrowings (*1)		-	2,557,451	31,102,305	33,659,756
Debentures		-	123,457,992	-	123,457,992
Other financial liabilities (*1)		-	5,066,291	8,397,569	13,463,860
	₩	-	133,075,381	78,980,115	212,055,496

(*1) For financial instruments categorized as level 2, the carrying amount is considered a reasonable approximation of the fair value and is thus, disclosed by fair value.

As of December 31, 2016 and 2015

49. Fair Value of Financial Assets and Liabilities, Continued

(ii) Details of valuation technique and inputs used in the fair value measurement categorized within level 2 and 3 of the fair value hierarchy of financial instruments disclosed by fair value as of December 31, 2016 and 2015 are as follows:

	Valuation technique	Input
Level 2		
Financial assets:		
Held-to-maturity financial assets	Discounted cash flow method	Discount rate
Financial liabilities:		
Debentures	Discounted cash flow method	Discount rate
Level 3		
Financial assets:		
Loans	Discounted cash flow method	Credit spread, other spread, prepayment rate
Other financial assets	Discounted cash flow method	Other spread
Financial liabilities:		
Deposits	Discounted cash flow method	Other spread, prepayment rate
Borrowings	Discounted cash flow method	Other spread
Other financial liabilities	Discounted cash flow method	Other spread

As of December 31, 2016 and 2015

(In millions of won)

50. Categories of Financial Assets and Liabilities

Categories of financial assets and liabilities as of December 31, 2016 and 2015 are as follows:

	December 31, 2016								
	Cash and cash equivalents	Financial instruments held for trading	Financial instruments designated at FVTPL	Available-for-sale financial instruments	Held-to-maturity financial instruments	Loans and receivables	Financial liabilities measured at amortized cost	Hedging purpose derivative instruments	Total
Financial assets:									
Cash and due from banks	₩ 7,125,668	-	-	-	-	2,045,535	-	-	9,171,203
Financial assets held for trading	20,083	2,400,749	-	-	-	-	-	-	2,420,832
Financial assets designated at FVTPL	-	-	341,303	-	-	-	-	-	341,303
Available-for- sale financial assets	-	-	-	43,810,626	-	-	-	-	43,810,626
Held-to-maturity financial assets	-	-	-	-	5,446,948	-	-	-	5,446,948
Loans	5,127,862	-	-	-	-	139,388,352	-	-	144,516,214
Derivative financial assets	-	5,364,147	-	-	-	-	-	1,096,979	6,461,126
Other financial assets	-	-	-	-	-	18,314,057	-	-	18,314,057
	₩ 12,273,613	7,764,896	341,303	43,810,626	5,446,948	159,747,944	-	1,096,979	230,482,309
Financial liabilities:									
Financial liabilities designated at FVTPL	₩ -	-	1,893,077	-	-	-	-	-	1,893,077
Deposits	-	-	-	-	-	-	39,398,070	-	39,398,070
Borrowings	-	-	-	-	-	-	31,203,363	-	31,203,363
Debentures	-	-	-	-	-	-	121,890,112	-	121,890,112
Derivative financial liabilities	-	5,428,197	-	-	-	-	-	1,354,357	6,782,554
Other financial liabilities	-	-	-	-	-	-	11,565,808	-	11,565,808
	₩ -	5,428,197	1,893,077	-	-	-	204,057,353	1,354,357	212,732,984

As of December 31, 2016 and 2015

(In millions of won)

50. Categories of Financial Assets and Liabilities, Continued

	December 31, 2015								
	Cash and cash equivalents	Financial instruments held for trading	Financial instruments designated at FVTPL	Available-for-sale financial instruments	Held-to-maturity financial instruments	Loans and receivables	Financial liabilities measured at amortized cost	Hedging purpose derivative instruments	Total
Financial assets:									
Cash and due from banks	₩ 5,235,054	-	-	-	-	2,659,628	-	-	7,894,682
Financial assets held for trading	110,513	2,403,581	-	-	-	-	-	-	2,514,094
Financial assets designated at FVTPL	-	-	431,383	-	-	-	-	-	431,383
Available-for- sale financial assets	-	-	-	52,495,740	-	-	-	-	52,495,740
Held-to-maturity financial assets	-	-	-	-	58,966	-	-	-	58,966
Loans	3,929,018	-	-	-	-	138,511,213	-	-	142,440,231
Derivative financial assets	-	4,624,472	-	-	-	-	-	1,389,204	6,013,676
Other financial assets	-	-	-	-	-	18,417,653	-	-	18,417,653
	₩ 9,274,585	7,028,053	431,383	52,495,740	58,966	159,588,494	-	1,389,204	230,266,425
Financial liabilities:									
Financial liabilities designated at FVTPL	₩ -	-	1,622,618	-	-	-	-	-	1,622,618
Deposits	-	-	-	-	-	-	41,431,501	-	41,431,501
Borrowings	-	-	-	-	-	-	33,576,215	-	33,576,215
Debentures	-	-	-	-	-	-	121,617,029	-	121,617,029
Derivative financial liabilities	-	4,640,181	-	-	-	-	-	1,438,112	6,078,293
Other financial liabilities	-	-	-	-	-	-	13,463,809	-	13,463,809
	₩ -	4,640,181	1,622,618	-	-	-	210,088,554	1,438,112	217,789,465

As of December 31, 2016 and 2015

(In millions of won)

51. Offsetting of Financial Assets and Liabilities

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

		December 31, 2016					
		Gross amounts of recognized financial asset	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position: Financial instruments	Related amounts not set off in the statement of financial position: Cash collateral received	Net amounts
Derivative financial assets (*1)	₩	6,461,126	-	6,461,126	3,395,440	-	3,065,686
Unsettled spot exchange receivables (*1)		4,187,417	-	4,187,417	4,186,354	-	1,063
Unsettled domestic exchange receivables		2,593,428	1,282,175	1,311,253	-	-	1,311,253
Security pledged as collateral for repurchase agreements		2,663,139	-	2,663,139	1,505,263	-	1,157,876
Reverse repurchase agreements		715,634	-	715,634	715,634	-	-
Receivables from securities transaction		17,038	-	17,038	17,038	-	-
Reinsurance receivables		83,846	-	83,846	82,216	-	1,630
	₩	16,721,628	1,282,175	15,439,453	9,901,945	-	5,537,508

		December 31, 2016					
		Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position: Financial instruments	Related amounts not set off in the statement of financial position: Cash collateral pledged	Net amounts
Derivative financial liabilities (*1)	₩	6,782,554	-	6,782,554	3,773,640	-	3,008,914
Unsettled spot exchange payables (*1)		4,194,083	-	4,194,083	4,186,354	-	7,729
Unsettled domestic exchange payables		1,575,478	1,282,175	293,303	-	-	293,303
Repurchase agreements		1,505,263	-	1,505,263	1,505,263	-	-
Payables from securities transaction		6,345	-	6,345	6,345	-	-
Reinsurance payables		82,916	-	82,916	82,216	-	700
	₩	14,146,639	1,282,175	12,864,464	9,553,818	-	3,310,646

As of December 31, 2016 and 2015

(In millions of won)

51. Offsetting of Financial Assets and Liabilities, Continued

		December 31, 2015					
		Gross amounts of recognized financial asset	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
					Financial instruments	Cash collateral received	
Derivative financial assets (*1)	₩	6,013,676	-	6,013,676	3,472,069	-	2,541,607
Unsettled spot exchange receivables (*1)		4,647,139	-	4,647,139	4,480,783	-	166,356
Unsettled domestic exchange receivables		1,975,610	1,408,986	566,624	-	-	566,624
Security pledged as collateral for repurchase agreements		2,948,186	-	2,948,186	2,118,807	-	829,379
Reverse repurchase agreements		490,239	-	490,239	434,854	-	55,385
Receivables from securities transaction		34,008	-	34,008	34,008	-	-
Reinsurance receivables		11,534	-	11,534	11,120	-	414
	₩	16,120,392	1,408,986	14,711,406	10,551,641	-	4,159,765

		December 31, 2015					
		Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
					Financial instruments	Cash collateral pledged	
Derivative financial liabilities (*1)	₩	6,078,293	-	6,078,293	4,040,757	-	2,037,536
Unsettled spot exchange payables (*1)		4,647,946	-	4,647,946	4,480,782	-	167,164
Unsettled domestic exchange payables		1,827,332	1,408,986	418,346	-	-	418,346
Repurchase agreements		2,118,807	-	2,118,807	2,124,836	-	(6,029)
Payables from securities transaction		30,356	-	30,356	30,356	-	-
Reinsurance payables		11,338	-	11,338	11,120	-	218
	₩	14,714,072	1,408,986	13,305,086	10,687,851	-	2,617,235

(*1) For the derivatives covered by the ISDA derivative contracts, all contracts are settled and the net amount of derivative contracts is measured and paid based on the liquidation value if the counterparty files for bankruptcy or has any credit issues.

As of December 31, 2016 and 2015

(In millions of won)

52. Operating Segments

(1) The Group has seven reportable segments, as described below, which are the Group's strategic business units. They are managed separately because each business requires different technology and marketing strategies. The following summary describes general information about each of the Group's reportable segments:

Business		General information
Bank business	Corporate finance	Provides trading services and loans to corporate customers
	Investment finance	Provides consulting services to corporate such as capital finance, restructuring, etc.
	Asset management	Provides asset management services to individual and corporate customers
	Others	Any other segment not mentioned above
Insurance		Subsidiaries that conduct insurance business (KDB Life Insurance Co., Ltd.)
Overseas		Subsidiaries located in foreign countries
Other subsidiaries		Subsidiaries except for overseas subsidiaries and subsidiaries conducting insurance business

(2) Operating income (loss) from external customers and among operating segments for the years ended December 31, 2016 and 2015 are as follows:

2016		Bank industry								
		Corporate finance	Investment finance	Asset management	Others	Insurance	Overseas	Other subsidiaries	Adjustment	Total
Operating income (loss) from external customers	₩	1,886,633	(1,553,975)	31,688	(617,729)	(329,867)	119,331	(2,690,403)	-	(3,154,322)
Operating income (loss) from intersegment transactions		(1,387,896)	(186,200)	-	557,006	(59,539)	8,157	100,961	967,511	-
	₩	498,737	(1,740,175)	31,688	(60,723)	(389,406)	127,488	(2,589,442)	967,511	(3,154,322)

2015		Bank industry								
		Corporate finance	Investment finance	Asset management	Others	Insurance	Overseas	Other subsidiaries	Adjustment	Total
Operating income (loss) from external customers	₩	(65,480)	(1,906,210)	41,029	720,486	38,548	(6,445)	86,399	-	(1,091,673)
Operating income (loss) from intersegment transactions		(231,063)	698,951	-	(476,968)	(38,726)	(7,893)	216,750	(161,051)	-
	₩	(296,543)	(1,207,259)	41,029	243,518	(178)	(14,338)	303,149	(161,051)	(1,091,673)

As of December 31, 2016 and 2015

(In millions of won)

52. Operating Segments, Continued

(3) Details of segment results for the Group's reportable segments for the years ended December 31, 2016 and 2015 are as follows:

	2016								
	Bank industry								
	Corporate finance	Investment finance	Asset management	Others	Insurance	Overseas	Other subsidiaries	Adjustment	Total
Net interest income (expense)	₩ 1,624,666	(254,968)	14,355	40,327	383,635	90,730	183,919	(38,988)	2,043,676
Non-interest income (expense)									
Income (expense) related to securities (*1)	170,431	30,681	-	26,009	113,672	50,193	(96,148)	32,574	327,412
Other non-interest income (expense)	295,186	1,520,384	26,849	(108,329)	(474,201)	33,830	(597,823)	(11,671)	684,225
	465,617	1,551,065	26,849	(82,320)	(360,529)	84,023	(693,971)	20,903	1,011,637
Provision for loan losses and others (*2)	(1,033,129)	(2,931,615)	-	(9,419)	(401,534)	3,927	(937,267)	1,025,245	(4,283,792)
General and administrative expenses	(558,417)	(104,657)	(9,516)	(9,311)	(10,978)	(51,192)	(1,142,123)	(39,649)	(1,925,843)
Operating income (loss)	₩ 498,737	(1,740,175)	31,688	(60,723)	(389,406)	127,488	(2,589,442)	967,511	(3,154,322)

	2015								
	Bank industry								
	Corporate finance	Investment finance	Asset management	Others	Insurance	Overseas	Other subsidiaries	Adjustment	Total
Net interest income	₩ 1,182,833	150,285	9,426	235,675	380,496	62,357	216,700	13,211	2,250,983
Non-interest income (expense)									
Income (expense) related to securities (*1)	(75,572)	182,139	-	107,058	127,569	472	142,607	9,682	493,955
Other non-interest income (expense)	593,920	526,572	41,435	(83,259)	(496,484)	61,481	787,401	(228,331)	1,202,735
	518,348	708,711	41,435	23,799	(368,915)	61,953	930,008	(218,649)	1,696,690
Provision for loan losses and others (*2)	(1,465,860)	(1,978,482)	-	(1,427)	(330)	(91,008)	(202,592)	43,029	(3,696,670)
General and administrative expenses	(531,864)	(87,773)	(9,832)	(14,529)	(11,429)	(47,640)	(640,967)	1,358	(1,342,676)
Operating income (loss)	₩ (296,543)	(1,207,259)	41,029	243,518	(178)	(14,338)	303,149	(161,051)	(1,091,673)

(*1) Income related to securities is composed of net gain (loss) on financial instruments held for trading, available-for-sale financial assets and held-to-maturity financial assets.
(*2) Provision for loan losses and others comprises provision for loan losses, provision for derivative credit risks, gains (losses) on sales of loans, and provision for other losses.

As of December 31, 2016 and 2015

(In millions of won)

52. Operating Segments, Continued

(4) Geographical revenue information for the years ended December 31, 2016 and 2015 and the geographical non-current asset information as of December 31, 2016 and 2015 are as follows:

		Revenues (*1)		Non-current assets (*2)	
		2016	**2015**	**December 31, 2016**	**December 31, 2015**
Domestic	₩	54,483,300	30,982,587	36,438,491	37,438,851
Overseas		1,040,851	1,063,386	33,201	21,734
	₩	55,524,151	32,045,973	36,471,692	37,460,585

(*1) Revenues consist of interest income, fees and commission income, income related to securities, foreign currency transaction gain, gain on derivative, other operating income and provision for loan losses.
(*2) Non-current assets consist of investments in associates, property and equipment, investment properties and intangible assets.

As of December 31, 2016 and 2015

(In millions of won)

53. Restatement of the Comparative Consolidated Financial Statements

Daewoo Shipbuilding & Marine Engineering Co., Ltd. (DSME), which was the Group's associate as of December 31, 2014, has restated the consolidated financial statements for the years ended December 31, 2015 and 2014 due to the error of the total estimated cost for construction, etc. As a result of the restatement, DSME's net assets as of December 31, 2015 and 2014 increased by ₩182 billion and decreased by ₩915 billion, respectively. Consequently, the Group has restated the comparative consolidated financial statements for the year ended December 31, 2015.

The impacts on the Group's consolidated financial statements as the result of the restatements are as follows:

(1) Consolidated Statements of Financial Position

	December 31, 2015			December 31, 2014		
	As previously reported	Adjustments	As restated	As previously reported	Adjustments	As restated
Assets:						
Investments in associates	₩ 26,607,053	-	26,607,053	21,440,756	(287,898)	21,152,858
Others	282,884,720	(175,472)	282,709,248	255,264,063	-	255,264,063
	309,491,773	(175,472)	309,316,300	276,704,819	(287,898)	276,416,921
Liabilities:						
Deferred tax liabilities	3,610,816	10,977	3,621,793	2,890,176	(35,092)	2,855,084
Others	271,938,609	(357,866)	271,580,743	244,114,040	-	244,114,040
	275,549,425	(346,889)	275,202,536	247,004,216	(35,092)	246,969,124
Net assets	₩ 33,942,347	171,417	34,113,764	29,700,603	(252,806)	29,447,797

As of December 31, 2016 and 2015

(In millions of won)

53. Restatement of the Comparative Consolidated Financial Statements, Continued

(2) Consolidated Statements of Comprehensive Income

		2015		
		As previously reported	Adjustments	As restated
Net interest income	₩	2,250,983	-	2,250,983
Non-interest income, net		653,374	323,343	976,717
Provision for loan losses		2,976,697	-	2,976,697
General and administrative expenses		1,342,676	-	1,342,676
Non-operating income, net (*1)		4,101,448	57,388	4,158,836
Profit before income taxes		2,686,432	380,731	3,067,163
Income tax expense		989,718	46,069	1,035,787
Profit from continuing operations		1,696,714	334,662	2,031,376
Profit from discontinued operations		56,710	-	56,710
Profit for the year		1,753,424	334,662	2,088,086
Other comprehensive income for the year, net of tax		380,278	(2,117)	378,161
Total comprehensive income for the year	₩	2,133,702	332,545	2,466,247
Profit attributable to:				
Owners of the parent	₩	1,735,583	334,662	2,070,245
Non-controlling interests		17,841	-	17,841
	₩	1,753,424	334,662	2,088,086
Total comprehensive income attributable to:				
Owners of the parent	₩	1,920,670	332,545	2,253,215
Non-controlling interests		213,032	-	213,032
	₩	2,133,702	332,545	2,466,247
Earnings per share (in won)	₩	519		619
Earnings per share - Continued operations (in won)	₩	513		591

(*1) Non-operating income, net is the effect caused by the change of the share of earnings (loss) of associates.

54. Risk Management

(1) Introduction

(i) Objectives and principles

The Group's risk management aims to maintain financial soundness and effectively manage various risks pertinent to the nature of the Group's business. The Group has set up and fulfilled policies to manage risks timely and effectively. Pursuant to the policies, the Group's risks shall be
- managed comprehensively and independently,
- recognized timely, evaluated exactly and managed effectively,
- maintained to the extent that the risks balance with profit,
- diversified appropriately to avoid concentration on specific segments,
- managed to prevent excessive exposure by the setting up and managing of tolerance limits and guidelines.

(ii) Risk management strategy and process

The Group's risk management business is separated into two different stages; the 'metrification stage,' in which risks are estimated and monitored, and the 'integration stage,' in which information gained during the risk management process is integrated and used in management strategies. Risk management is recognized as a key component of the Group's management, and seeks to change from its previously adaptive and limited role to more leading and comprehensive role.

Furthermore, the Group focuses on consistent communication among different departments to establish a progressive consensus on risk management.

(iii) Risk management governance

Risk Management Committee

The Group's Risk Management Committee (the "Committee") is composed of the President of the committee (an outside director), and five other commissioners including the CEO of the Bank. The Committee functions to establish policies of risk management, evaluate the capital adequacy of the Group, discuss material issues relating to risk management, and present preliminary decisions on such matters.

The CEO of the Bank and the head of Risk Management Segment

The CEO of the Bank, according to the policies of risk management, performs his or her role to manage and direct risk management to sustain efficiency and internal control. The head of the Risk Management Segment is responsible for supervising the overall administration of the Group's risk management business and providing risk-related information to members of the board of directors and the Group's management.

Risk Management Policy Committee and Risk Management Practice Committee

The Group's Risk Management Policy Committee is composed of the leaders of all business segments, and exercises its role to decide important matters relating to the Group's portfolio including allocating internal capital limits by segment and setting exposure limits by industry within the scope that Risk Management Committee regulated.

The Group's Risk Management Practice Committee is composed of the planning department's leaders of main business segments. The Risk Management Practice Committee decides the guidelines of review and approval on retail loan and exercises its role to preliminarily review matters for main decision of the Risk Management Committee.

As of December 31, 2016 and 2015

54. Risk Management, Continued

(iv) Performance of risk management committee

The Risk Management Committee performs comprehensive reviews of all the affairs related to risk management and deliberates the decisions of the board of directors. For the year ended December 31, 2016, the key activities of the Risk Management Committee are as follows:

- Major decision
  · The improvement of management system on regional exposure and setting up limits
  · The emergency financing plan for the year

- Major reporting
  · Resolutions from the Credit Committee on the quarterly basis
  · Integrated crisis analysis on the semi-annually basis
  · Allocation and management standards of internal capital limits
  · The plan for the improvement of the credit rating system
  · The plan of proceeding of the enterprise credit rating system
  · The result of the simulation of the Business Continuity Plan
  · The result of regular corporate credit ratings
  · The improvement of management system on industrial exposure limits
  · The result of verifications on the credit rating system and the probability of default

(v) Improvement of risk management system

For the continuous improvement of risk management, financial soundness and capital adequacy, the Group performs the following:

- Continuous improvement of Basel
  · Improvements in the internal capital adequacy assessment system, in line with the guidelines set by the Financial Supervisory Service (FSS) in 2008, to manage capital adequacy more effectively
  · Improvements in the credit assessment system on Low Default Portfolio (LDP)
  · Elaboration of risk measuring criteria including credit risk parameters and measurement logics
  · Establishment of system for timely calculation of LCR and NSFR

- Expansion of risk management infrastructure to the global IB level
  · Establishment of the RAPM system to reflect risks to the Bank's business and support decision-making upon management, and application of performance assessment at the branch level since 2010
  · Enforcement of risk management related to irregular compound derivatives and validation of the derivative pricing model developed by the Bank's Front Office

- Risk management of retail banking
  · On-going planning of asset expansion in the retail banking risk management operations sector of the department of risk management since the introduction of retail loan business in 2010
  · Establishment and application of assessment and approval standards by retail loan instruments, and expansion of retail banking risk management infrastructure such as accumulating databases to support analytic decision-making and develop a personal credit assessment model through the establishment of a "retail banking Data Mart"

54. Risk Management, Continued

(vi) Risk management reporting and measuring system

The Group endeavours consistently to objectively and rationally measure and manage all significant risks considering the characteristics of operational areas, assets and risks. In relation to reporting and measurement, the Group has developed application systems as follows:

Application system	Approach	Completion date	Major function
Corporate Credit Rating System	Logit Model	Jun. 2004 Mar. 2008 Mar. 2010	Calculate corporate credit rating
		Mar. 2012	Corporate credit rating system build-up based on K-IFRS
Credit Risk Measurement System	Credit Risk+ Credit Metrics	Jul. 2003 Nov. 2007	Summarize exposures, manage exposure limits and calculate Credit VaR
Market Risk Management System	Risk Watch	Jun. 2002	Summarize position, manage exposure limits and calculate Market VaR
	RS Model	Sep. 2012	Calculate regulatory capital (SA)
	Murex M/O	Apr. 2013	Supplement Risk Watch in calculating VaR
Interest/Liquidity Risk Management System	OFSA	Feb. 2006	Calculate repricing gap, duration gap, VaR and EaR
	Fermat	Mar. 2014	Improve system, Establish responding system for Basel III liquidity regulatory
Operational Risk Management System	Standardized Approach	May. 2006	Manage process and calculate CSA, KRI and OP VaR
	AMA	May. 2009	Pre-operate the AMA
BIS Capital Ratio Calculation System	Fermat RaY	Sep. 2006 Dec. 2013	Calculate equity and credit risk-weighted assets

(vii) Response to Basel

The Korean financial authorities have implemented Basel II since January 2008, and adopted the Standardized Approach and the Foundation Internal Ratings-Based Approach.

In conformity with the implementation roadmap of Basel II, the Group obtained the approval to use the Foundation Internal Ratings-Based Approach on credit risk from the FSS in July 2008 and has applied the approach since late June 2008. The Group applies the Standardized Approach on market risks and operational risks.

The Group completed the Basel III standard risk management system in preparation of the adoption of the Basel III regulations announced on December 1, 2013. Starting from 2013 year-end, the BIS capital adequacy ratio has been measured in accordance to the Basel III regulations.

Responding to the requirement of the financial authorities, the Group recognizes interest rate risk, liquidity risk, credit bias risk and reputational risk as well as Pillar I risks (credit risk, market risk and operational risk). Since 2015, the Group has responded to Pillar II regulations including additional capital requirements based on comprehensive assessment on bank risk management level. Since the end of 2015, the Group has applied the uniform standards for the public announcement of financial business for Basel compliance.

Furthermore, the Group is in the process of preparing revised standards such as capital requirements for banks' investments in funds, which will take effect in 2017 and the Standardised Approach for measuring counterparty credit risk (SA-CCR), which will take effect in 2018.

54. Risk Management, Continued

(viii) Internal capital adequacy assessment process

Internal capital adequacy assessment process is defined as the process that the Group aggregates significant risks, calculates its internal capital, compares the internal capital with the available capital and assesses its internal capital adequacy.

- Internal capital adequacy assessment

For the internal capital adequacy assessment, the Group calculates its aggregated internal capital by evaluating all significant risks and available capital considering the quality and components of capital, and then assesses the internal capital adequacy by comparing the aggregated internal capital with the available capital. In addition, the Group conducts periodic stress tests more than once every six months to assess potential weakness in crisis situations and uses its results to assess the internal capital adequacy. The Group assumes the macroeconomic situation as four stages of 'normal-aggravation-pessimistic-serious' and is preparing countermeasures such as checking the adequacy of capital by each stage.

- Goal setting of internal capital management

The Group sets up and manages an internal capital limit on an annual basis, through the approval of the Risk Management Committee, to maintain internal capital adequacy by managing internal capital (integrated risks) within the extent of available capital.

The prior year's internal capital, analysis of domestic and foreign environment changes in the current year, and the direction and size of operations are all reflected in the goal setting of internal capital management to calculate the integrated internal capital scale. Moreover, Bank for International Settlements("BIS") capital adequacy ratio and risk appetite are taken into consideration in the goal setting of internal capital management

- Allocation of internal capital

The Group's entire internal capital is allocated to each segment and department, according to the extent of possible risk faced and size of operations, after the Risk Management Committee's deliberation and the board of directors' approval. The allocated internal capital is monitored regularly and managed using various management methods. The results of monitoring and managing the allocated internal capital are reported to the Risk Management Committee. In case of any material changes in the Group's business plan or risk operation strategy, the Group adjusts the allocations elastically.

- Composition of internal capital

Internal capital comprises all the significant risks of the Group and is composed of quantifiable and non-quantifiable risks. Quantifiable risks are composed of credit risk, market risk, interest rate risk, operational risk and credit concentration risk, foreign currency settlement risk, and are risks measured quantitatively by applying reasonable methodology using objective data. Non-quantifiable risks are composed of strategy risk, reputation risk, residual risk on asset securitization and furthermore. Non-quantifiable risks are those risks that cannot be measured quantitatively because of lack of data or the absence of appropriate measuring methodologies.

54. Risk Management, Continued

(2) Credit Risk

(i) Concept

Credit risk can be defined as potential loss resulting from the refusal to perform obligations or default of counterparties. More generally, it is used to refer to the possibility of loss from engaged bonds that cannot be redeemed properly or from substitute payments.

(ii) Approach to credit risk management

Summary of credit risk management

The Group regards credit risk as the most significant risk area in its business operations, and accordingly, closely monitors its credit risk exposure. The Group manages both credit risks at portfolio level and at individual credit level. At portfolio level, the Group reduces credit concentration and restructures the portfolio in such a way to maximize profitability considering the risk level. To avoid credit concentration on a particular sector, the Group manages credit limits by client, group, and industry. The Group also resets exposure management directives for each industry by conducting an industry credit evaluation twice a year.

At the individual credit level, the relationship manager (RM), the credit officer (CO) and the Credit Review Committee manage each borrower’s credit risk.

Post management and insolvent borrower management

The Group monitors the borrower’s credit rating from the date of the loan to the date of the final collection of debt consistently, and inspects the borrower’s status regularly and frequently to prevent the generation of new bad debts and to stabilize the number of debt recoveries.

In addition, an early warning system is operated to spot borrowers that are highly likely to be insolvent. The early warning system provides financial information, financial transaction information, public information and market information of the borrower, and such information is used by the RM and the CO to monitor and manage changes in the borrower’s credit rating.

Under the early warning system, a borrower that is highly likely to be insolvent is classified as an early warning borrower or a precautionary borrower The Group sets up a specific and applicable stabilization plan for such a borrower considering the borrower’s characteristics. Furthermore, sub-standard borrowers are classified as insolvent borrowers, and are managed intensively by the Group, which takes legal proceedings, disposals or corporate turnaround measures if necessary.

Classification of asset soundness and provision of allowance for loss

Classification of asset soundness is fulfilled by the analysis and assessment of credit risk. The classification is used to provision an appropriate allowance, prevent further occurrences of insolvent assets and promote the normalization of existing insolvent assets to enhance the stabilization of asset operations.

Based on the Financial Supervisory Regulations of the Republic of Korea, the Group has established standards and guidelines on the classification of asset soundness, according to the Forward-Looking Criteria, which reflects not only the borrower’s past records of repayment but also their future debt repayment capability.

In conformity with these standards, the Group classifies the soundness of its assets as “normal”, “precautionary”, “substandard”, “doubtful”, or “estimated loss” and differentiates the coverage ratio by the level of classification.

As of December 31, 2016 and 2015

(In millions of won)

54. Risk Management, Continued

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

		December 31, 2016	December 31, 2015
Neither past due nor impaired	₩	141,816,564	139,605,174
Past due but not impaired		128,068	419,903
Impaired		5,910,824	6,993,009
		147,855,456	147,018,086
Allowance for loan losses		(3,063,671)	(4,550,241)
Present value discount		(269,248)	(23,575)
Deferred loan origination costs and fees		(6,323)	(4,039)
Net value	₩	144,516,214	142,440,231
Ratio of allowance for loan losses to total loans		2. 07%	3. 10%

Loans that are neither past due nor impaired as of December 31, 2016 and 2015 are as follows:

	December 31, 2016							
		Loans in Korean won				Other loans		
		Loans for working capital	Loans for facility development	Others	Loans in foreign currencies	Privately placed corporate bonds	Others	Total
AAA ~ B-	₩	42,084,808	51,418,748	5,578,284	24,955,409	2,539,893	11,224,659	137,801,801
CCC ~ CC		1,382,472	231,249	1,202	1,423,125	506,130	470,585	4,014,763
C ~ D		-	-	-	-	-	-	-
	₩	43,467,280	51,649,997	5,579,486	26,378,534	3,046,023	11,695,244	141,816,564

	December 31, 2015							
		Loans in Korean won				Other loans		
		Loans for working capital	Loans for facility development	Others	Loans in foreign currencies	Privately placed corporate bonds	Others	Total
AAA ~ B-	₩	40,830,357	52,017,945	5,708,401	26,156,351	3,237,317	8,558,597	136,508,968
CCC ~ CC		1,017,501	444,247	700	828,807	573,786	231,165	3,096,206
C ~ D		-	-	-	-	-	-	-
	₩	41,847,858	52,462,192	5,709,101	26,985,158	3,811,103	8,789,762	139,605,174

As of December 31, 2016 and 2015

(In millions of won)

54. Risk Management, Continued

Loans that are past due but not impaired as of December 31, 2016 and 2015 are as follows:

	December 31, 2016							
		Loans in Korean won				Other loans		
		Loans for working capital	Loans for facility development	Others	Loans in foreign currencies	Privately placed corporate bonds	Others	Total
Within 30 days	₩	19,149	38,938	7,690	20,905	2,100	8,347	97,129
30 ~ 60 days		3,049	6,224	347	-	10,310	1,325	21,255
60 ~ 90 days		397	8,111	56	-	-	1,120	9,684
	₩	22,595	53,273	8,093	20,905	12,410	10,792	128,068

	December 31, 2015							
		Loans in Korean won				Other loans		
		Loans for working capital	Loans for facility development	Others	Loans in foreign currencies	Privately placed corporate bonds	Others	Total
Within 30 days	₩	102,077	81,336	14,563	172,469	2,000	19,862	392,307
30 ~ 60 days		6,478	12,006	1,223	-	-	803	20,510
60 ~ 90 days		65	6,255	5	-	300	461	7,086
	₩	108,620	99,597	15,791	172,469	2,300	21,126	419,903

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

	December 31, 2016							
		Loans in Korean won				Other loans		
		Loans for working capital	Loans for facility development	Others	Loans in foreign currencies	Privately placed corporate bonds	Others	Total
Individual assessment	₩	2,367,523	1,123,001	90	994,448	408,473	696,573	5,590,108
Collective assessment		149,618	61,434	8,227	65,807	4,921	30,709	320,716
	₩	2,517,141	1,184,435	8,317	1,060,255	413,394	727,282	5,910,824

	December 31, 2015							
		Loans in Korean won				Other loans		
		Loans for working capital	Loans for facility development	Others	Loans in foreign currencies	Privately placed corporate bonds	Others	Total
Individual assessment	₩	3,791,789	1,236,340	103	206,841	578,674	924,491	6,738,238
Collective assessment		96,906	26,018	10,400	85,769	7,670	28,008	254,771
	₩	3,888,695	1,262,358	10,503	292,610	586,344	952,499	6,993,009

As of December 31, 2016 and 2015

54. **Risk Management, Continued**

(iii) Measurement methodology of credit risk

Pursuant to Basel II, the Group selects the measurement methodology of credit risk considering the complexity of measurement, measurement factors, estimating methods and others. Measurement approaches are divided into Standardized Approach and Internal Ratings-Based Approach.

Standardized Approach (SA)

In the case of the Standardized Approach, the risk weights are applied according to the credit rating assessed by External Credit Assessment Institution (ECAI). Risk weights in each credit rating are as follows:

Credit rating	Corporate	Country	Bank	Asset securitization
AAA ~ AA-	20.00%	0.00%	20.00%	20.00%
A+ ~ A-	50.00%	20.00%	50.00%	50.00%
BBB+ ~ BBB-	100.00%	50.00%	100.00%	100.00%
BB+ ~ BB-	100.00%	100.00%	100.00%	350.00%
B+ ~ B-	150.00%	100.00%	100.00%	Deducted from Equity (1,250%)
Below B-	150.00%	150.00%	150.00%	〃
Unrated	100.00%	100.00%	100.00%	〃

The OECD, S&P, Moody's and Fitch are designated as foreign ECAI and Korea Investors Service Co., Ltd., NICE Investors Services Co., Ltd. and the Korea Ratings Co., Ltd. are designated as domestic ECAI.

The Group applies the credit rating based on the corresponding loan and same borrower's unsecured senior loans. In the case the borrower's risk weight is higher than the unrated exposure's risk weight (100%), the higher weight is applied. In the case the borrower has more than one rating, the higher weight of the two lowest weights (second best criteria) is applied.

54. Risk Management, Continued

Internal Ratings-Based Approach (IRB)
To use the Internal Ratings-Based Approach, a bank must be approved by the FSS and should also meet the requirement pre-set by the FSS.

In relation to Basel II that has been adopted domestically as of January 2008, the Group gained approval from the FSS to use the Foundation Internal Ratings-Based Approach in July 2008. The Group has calculated credit risk-weighted assets using the approach since late June 2008.

Measurement method of credit risk-weighted asset
The Group calculates credit risk-weighted assets of corporate exposures and asset securitization exposures using the Foundation Internal Ratings-Based Approach as of December 31, 2016.

The Standardized Approach is applied to country exposures, public institution exposures and bank exposures according to the interpretation of the FSS permanently, and applied to overseas subsidiary and the Bank's branch pursuant to prior consultation with the FSS.

The Standard Approach is applied to special finance, non-residents, non-banking financial institutions currently, and will be replaced by the Internal Ratings-Based Approach in the future.

<Approved measurement method>

Measurement method		Exposure
Standardized Approach	Permanent SA	- Countries, public institutions and banks
	SA (*1)	- Overseas subsidiaries and branches, other assets, retail, residential property, commercial real estate, overdue loans (limited in loans for households)
Foundation Internal Ratings-Based Approach		- Corporate, small and medium enterprises, asset securitization (at each credit level) and equity
Application of IRB by phase		· Special lending, non-residence, non-bank financial institutions

(*1) The Standardized Approach is applied, pursuant to prior consultation with the FSS, in the case the credit risk-weighted assets of a specific business segment are less than 15% of the entire credit risk-weighted assets.

The mitigated effect of credit risks reflects the related policies which consider eligible collateral and guarantees. The Group calculates the credit risk-weighted assets using the capital adequacy ratio.

Upon the calculation of credit risk-weighted assets for derivatives, the Group takes into consideration the set-off effects of transactions under legally enforceable rights to set-off to calculate exposures.

As of December 31, 2016 and 2015

54. Risk Management, Continued

Exposure after credit risk mitigation by asset type as of December 31, 2016 and 2015 are as follows:

		December 31, 2016		
		Exposure	Credit risk mitigation	Exposure after credit risk mitigation
Government	₩	14,368,761	-	14,368,761
Bank		19,094,357	-	19,094,357
Corporate		134,968,173	(373,757)	134,594,416
Stock		31,017,838	-	31,017,838
Indirect investments		4,997,605	-	4,997,605
Asset securitization		5,485,028	-	5,485,028
Over-the-counter derivatives		11,149,751	(5,693,790)	5,455,961
Retail assets		2,475,355	(7,186)	2,468,169
Others		45,113,990	(601,491)	44,512,499
	₩	268,670,858	(6,676,224)	261,994,634

		December 31, 2015		
		Exposure	Credit risk mitigation	Exposure after credit risk mitigation
Government	₩	17,272,360	-	17,272,360
Bank		17,462,101	-	17,462,101
Corporate		139,519,518	(434,529)	139,084,989
Stock		31,389,938	-	31,389,938
Indirect investments		4,499,295	-	4,499,295
Asset securitization		4,848,090	-	4,848,090
Over-the-counter derivatives		9,983,539	(5,453,988)	4,529,551
Retail assets		3,112,058	(12,911)	3,099,147
Others		64,135,227	(1,432,694)	62,702,533
	₩	292,222,126	(7,334,122)	284,888,004

As of December 31, 2016 and 2015

(In millions of won)

54. Risk Management, Continued

Credit rating model
The results of credit rating are presented as grades through an assessment of the debt repayment capacity that the principal and interest of debt securities or loans are redeemed while complying with contractual redemption schedule.

Using the Group's internal credit rating model, the Group classifies debtors' credit rating into 10 grades (AAA~D). Plus sign (+) and minus sign (-) are attached to the grades (AA~B) to distinguish the difference between credits in the same grade. As a result, the Group's credit rating model uses 20 grades.

The Group's regular credit rating process is carried out once a year and in the case of the change of debtor's credit condition, the credit rating is frequently adjusted as necessary to retain the adequacy of credit rating.

The results of credit rating are applied to various areas such as discrimination of loan processes, loan limit, loan interest rate, post loan management standard process, credit risk measurement, and allowance for loan losses assessment.

Credit process control structure
According to the Principle of Checks and Balances, the Group has established the credit process control structure by which the credit rating system operates appropriately.

- Independent assessment of credit rating: The Group's business segment (RM) and credit rating assessment segment (CO) are independently operated.
- Independent control of credit rating system: The control of credit rating system including the development of credit rating model is independently implemented by the Group's Risk Management Department.
- Independent verification of credit rating system: Credit rating system is independently verified by the validation team of the Consulting Service Department.
- Independent audit of credit rating process: Credit rating process is audited by the Group's internal audit department.
- Role of the Board of Directors and the Group's management: Major issues relating to credit process are approved by the Board of Directors and are regularly monitored by the Group's top management.

The Group reviews debt serviceability based on a credit analysis when handling loans. Depending on the results, credit loan preservation is adjusted as necessary using such methods as interest rate preservation due to credit risk.

The Group evaluates the value of the collateral, performing ability and legal validity of the guarantee at the initial acquisition. The Group re-evaluates the provided collateral and guarantees regularly for them to be reasonably preserved.

For guarantees, the Group demands a corresponding written guarantee according to loan handling standards and the guarantor's credit rating is independently calculated when in conformance with the credit rating endowment method.

As of December 31, 2016 and 2015

(In millions of won)

54. Risk Management, Continued

(iv) *Credit exposure*

Geographical information of credit exposure as of December 31, 2016 and 2015 are as follows:

	December 31, 2016									
	Korea	Hong Kong	Ireland	Uzbekistan	Brazil	Hungary	UK	US	Others	Total
Due from banks (excluding due from BOK)	₩ 5,207,903	19,003	1,186	37,540	82	89,804	184,124	457,756	980,459	6,977,857
Financial assets designated at FVTPL:										
Bonds (excluding government bonds)	340,114	-	-	-	-	-	-	-	-	340,114
Available-for-sale financial assets:										
Bonds (excluding government bonds)	15,204,445	61,408	-	-	-	58,823	727,171	691,752	579,068	17,322,667
Held-to-maturity financial assets:										
Bonds (excluding government bonds)	2,574,635	-	-	-	-	-	-	-	12,135	2,586,770
Loans	139,835,831	26,611	35,471	65,229	142,725	133,314	834,806	850,389	5,524,999	147,449,375
Derivative financial assets	630,272	-	-	-	-	-	6,894	734	1,960	639,860
Other financial assets	11,411,532	1,315	104	1,519	1,659	7,709	15,912	34,584	112,981	11,587,315
	175,204,732	108,337	36,761	104,288	144,466	289,650	1,768,907	2,035,215	7,211,602	186,903,958
Guarantees	14,274,421	-	-	19,979	14,760	43,215	-	239,042	311,015	14,902,432
Commitments	6,698,388	4,416	-	14,589	-	6,292	49,998	160,787	400,251	7,334,721
	20,972,809	4,416	-	34,568	14,760	49,507	49,998	399,829	711,266	22,237,153
	₩ 196,177,541	112,753	36,761	138,856	159,226	339,157	1,818,905	2,435,044	7,922,868	209,141,111

As of December 31, 2016 and 2015

(In millions of won)

54. Risk Management, Continued

	December 31, 2015									
	Korea	Hong Kong	Ireland	Uzbekistan	Brazil	Hungary	UK	US	Others	Total
Due from banks (excluding due from BOK)	₩ 6,447,186	125,084	108	27,337	6,305	79,427	154,825	471,358	1,396,976	8,708,606
Financial assets designated at FVTPL:										
Bonds (excluding government bonds)	430,006	-	-	-	-	-	-	-	-	430,006
Available-for-sale financial assets:										
Bonds (excluding government bonds)	18,940,647	72,227	-	-	-	22,795	763,321	645,516	653,292	21,097,798
Held-to-maturity financial assets:										
Bonds (excluding government bonds)	30,071	-	-	-	-	-	-	-	23,647	53,718
Loans	139,843,759	81,178	6,707	62,643	49,649	147,500	442,943	569,375	5,357,571	146,561,325
Derivative financial assets	1,386,953	296	-	-	19	-	1,579	1,061	2,384	1,392,292
Other financial assets	22,729,838	50,971	16	9,802	1,929	7,986	40,344	108,347	895,783	23,845,016
	189,808,460	329,756	6,831	99,782	57,902	257,708	1,403,012	1,795,657	8,329,653	202,088,761
Guarantees	16,865,230	948	-	30,779	-	7,274	-	207,413	252,914	17,364,558
Commitments	6,682,605	-	-	14,086	-	58,255	24,584	226,585	509,433	7,515,548
	23,547,835	948	-	44,865	-	65,529	24,584	433,998	762,347	24,880,106
	₩ 213,356,295	330,704	6,831	144,647	57,902	323,237	1,427,596	2,229,655	9,092,000	226,968,867

As of December 31, 2016 and 2015

(In millions of won)

54. Risk Management, Continued

Industry information of credit exposure as of December 31, 2016 and 2015 are as follows:

		December 31, 2016				
		Manufacturing	Service	Loans for households	Others	Total
Due from banks (excluding due from BOK)	₩	9,017	5,074,867	-	1,893,973	6,977,857
Financial assets designated at FVTPL:						
Bonds (excluding government bonds)		-	340,114	-	-	340,114
Available-for-sale financial assets:						
Bonds (excluding government bonds)		3,508,421	11,288,913	-	2,525,333	17,322,667
Held-to-maturity financial assets:						
Bonds (excluding government bonds)		23,710	2,201,769	-	361,291	2,586,770
Loans		65,511,529	66,679,913	1,302,418	13,955,515	147,449,375
Derivative financial assets		24,550	613,942	-	1,368	639,860
Other financial assets		143,546	196,882	-	11,246,887	11,587,315
		69,220,773	86,396,400	1,302,418	29,984,367	186,903,958
Guarantees		11,959,065	2,006,997	-	936,370	14,902,432
Commitments		544,102	6,574,202	-	216,417	7,334,721
		12,503,167	8,581,199	-	1,152,787	22,237,153
	₩	81,723,940	94,977,599	1,302,418	31,137,154	209,141,111

As of December 31, 2016 and 2015

(In millions of won)

54. Risk Management, Continued

		December 31, 2015				
		Manufacturing	Service	Loans for households	Others	Total
Due from banks (excluding due from BOK)	₩	147,207	7,019,670	-	1,541,729	8,708,606
Financial assets designated at FVTPL:						
Bonds (excluding government bonds)		-	430,006	-	-	430,006
Available-for-sale financial assets:						
Bonds (excluding government bonds)		4,915,984	13,019,689	-	3,162,125	21,097,798
Held-to-maturity financial assets:						
Bonds (excluding government bonds)		3,612	-	-	50,106	53,718
Loans		65,214,297	63,931,457	3,026,966	14,388,605	146,561,325
Derivative financial assets		553,458	775,080	-	63,754	1,392,292
Other financial assets		11,534,732	3,461,068	70,529	8,778,687	23,845,016
		82,369,290	88,636,970	3,097,495	27,985,006	202,088,761
Guarantees		13,826,775	2,463,188	-	1,074,595	17,364,558
Commitments		752,881	4,502,845	22	2,259,800	7,515,548
		14,579,656	6,966,033	22	3,334,395	24,880,106
	₩	96,948,946	95,603,003	3,097,517	31,319,401	226,968,867

Credit exposures of due from banks and debt securities by credit rating as of December 31, 2016 and 2015 are as follows:

		December 31, 2016				
		Due from banks	Financial assets designated at FVTPL	Available-for-sale financial assets	Held-to-maturity financial assets	Total
AAA ~ AA-	₩	2,614,838	255,634	5,366,853	2,521,497	10,758,822
A+ ~ A-		2,787,565	62,187	4,131,799	43,442	7,024,993
BBB+ ~ BB-		1,088,603	-	5,933,951	-	7,022,554
Below BB-		40,313	-	228,398	-	268,711
Unrated		446,538	22,293	1,661,666	21,831	2,152,328
	₩	6,977,857	340,114	17,322,667	2,586,770	27,227,408

		December 31, 2015				
		Due from banks	Financial assets designated at FVTPL	Available-for-sale financial assets	Held-to-maturity financial assets	Total
AAA ~ AA-	₩	5,640,771	298,034	6,943,640	-	12,882,445
A+ ~ A-		1,633,613	69,308	4,712,156	3,612	6,418,689
BBB+ ~ BB-		742,504	-	8,331,339	11,844	9,085,687
Below BB-		30,595	-	181,844	-	212,439
Unrated		661,123	62,664	928,819	38,262	1,690,868
	₩	8,708,606	430,006	21,097,798	53,718	30,290,128

As of December 31, 2016 and 2015

54. <u>Risk Management, Continued</u>

(3) Capital management activities

(i) Capital adequacy

The FSS approved the Bank's use of the Foundation Internal Ratings-Based Approach in July 2008. The Bank has been using the same approach when calculating credit risk-weighted assets since the end of June 2008. The equity capital ratio and equity capital according to the standards of the Bank for International Settlements are calculated for such disclosure. The equity capital ratio and equity capital are calculated on a consolidated basis. In conformity with the Banking Act, which is based on the implementation of Basel III on December 1, 2013, the regulatory capital is divided into the following two categories.

Tier 1 capital

- Common Equity Tier 1

Regulatory capital that represents the most subordinated claim in liquidation of the Bank, takes the first and proportionately greatest share of any losses as they occur, and which principal is never repaid outside of liquidation meets the criteria for classification as common equity, including capital stock, capital surplus, retained earnings, qualifying non-controlling interests in subsidiaries, and accumulated other comprehensive income as common equity Tier 1.

- Additional Tier 1 capital

Capital stock and capital surplus related to issuance of capital securities that are subordinated, have non-cumulative and conditional dividends or interests, and have no maturity or step-up conditions.

Tier 2 capital (Supplementary Tier 2 capital)

Regulatory capital that fulfils supplementary capital adequacy requirements, and includes subordinated debt with maturities over 5 years and allowance for loan losses in conformity with external regulatory standards and internal standards.

As of December 31, 2016 and 2015

(In millions of won)

54. Risk Management, Continued

The BIS capital adequacy ratio and capital in accordance to Basel III standards as of December 31, 2016 and 2015 are as follows:

BIS capital adequacy ratio

		December 31, 2016	December 31, 2015
Equity capital based on BIS (A):			
Tier 1 capital:			
Common Equity Tier 1	₩	28,569,965	27,653,288
Additional Tier 1 capital		9,021	1,553,158
		28,578,986	29,206,446
Tier 2 capital		4,648,003	4,611,071
	₩	33,226,989	33,817,517
Risk-weighted assets (B):			
Credit risk-weighted assets	₩	216,315,301	225,417,021
Market risk-weighted assets		2,685,966	6,934,967
Operational risk-weighted assets		4,659,937	6,059,533
	₩	223,661,204	238,411,521
BIS capital adequacy ratio (A/B):		14.86%	14.19%
Tier 1 capital ratio:		12.78%	12.25%
Common Equity Tier 1 ratio		12.77%	11.60%
Additional Tier 1 capital ratio		0.01%	0.65%
Tier 2 capital ratio		2.08%	1.94%

Equity capital based on BIS

		December 31, 2016	December 31, 2015
Tier 1 capital (A=C+D):			
Common Equity Tier 1 (C)			
Capital stock	₩	17,543,099	17,235,399
Capital surplus		1,546,046	1,565,666
Retained earnings		8,751,785	7,912,070
Non-controlling interests		3,536	1,751
Accumulated other comprehensive income		838,808	1,131,390
Common stock deductibles		(113,309)	(192,988)
		28,569,965	27,653,288
Additional Tier 1 capital (D)			
Non-controlling interests		9,021	1,553,158
		28,578,986	29,206,446
Tier 2 capital (B):			
Allowance for doubtful accounts, etc.		699,600	1,303,241
Qualified capital securities		2,400,000	1,400,000
Non-qualified capital securities		1,548,358	1,806,418
Non-controlling interests		45	101,412
		4,648,003	4,611,071
Equity capital (A+B)	₩	33,226,989	33,817,517

As of December 31, 2016 and 2015

54. Risk Management, Continued

(4) Market risk

(i) Concept

Market risk is defined as the possibility of potential loss on a trading position resulting from fluctuations in interest rates, foreign exchange rates and the price of stocks 1and derivatives. Trading position is exposed to risks, such as interest rate, stock price, and foreign exchange rate, etc. Non-trading position is mostly exposed to interest rates. Accordingly, the Group classifies market risks into those exposed from trading position or those exposed from non-trading position.

(ii) Market risks of trading positions

Management method on market risks arising from trading positions

Trading position includes securities, foreign exchange position, and derivatives which are traded for short-term profits.

Market risk is managed using VaR limit and loss limit. VaR limit is calculated in the view of entire Group and the calculated VaR limit is distributed into each department and each type (stock price, interest rate, foreign exchange rate and option). The trading department regulates and operates terms of stop loss and investment limits.

Using the Standardized Approach and internal model of VaR, the Group's VaR is measured daily and the measured VaR is used for risk monitoring and limit management. In the estimation of VaR, the historical simulation and two other supplemental procedures are used: variance-covariance matrix and Monte Carlo simulation. Through the stress test and back test, the estimation of VaR is validated daily.

In estimating market risk, the Standardized Approach and the internal model are used. The Standardized Approach is used to calculate the required capital from market risk and the internal model is used to manage risks internally.

Since July 2007, the Group has measured one-day VaR through the historical simulation method using the time series data of past 250 days under a 99% confidence level. The calculated VaR is monitored daily.

In the implementation of the stress test, the Group applies three scenarios based on the fluctuation of market index that occurred at the time of the historical events that resulted in the significant shock such as the IMF crisis and the 9/11 attacks. The stress test is implemented by the system daily to provide for crisis occurrences. Furthermore, the Group is conducting a contingency plan for market risk management. The plan distinguishes the crisis condition into three stages - precautious stage, precrisis stage and crisis stage - through the measurement of the market volatility.

For the validation of the market risk measurement methodology, the Group daily implements the back testing that compares the simulated loss, the actual loss and the previous day's VaR. In addition, the Group enforces the market risk management relating to irregular compound derivatives through the validation of the derivative pricing model developed by the Group's Front Office.

(In millions of won)

54. Risk Management, Continued

VaR of trading position
The Group's VaR of trading position as of December 31, 2016 and 2015 are as follows:

VaR of trading position as of December 31, 2016

KDB stand-alone

		December 31, 2016			
		Average	Max	Min	December 31, 2016
Interest rate	₩	4,219	6,190	2,079	5,120
Stock price		566	1290	70	193
Foreign exchange rate		1,604	9,342	349	4,255
Option		677	2,361	136	662
Diversification effect		(1,443)	(9,949)	659	(4,072)
	₩	5,623	9,234	3,293	6,159

KDB Subsidiaries (*1)

		December 31, 2016			
		Average	Max	Min	December 31, 2016
Interest rate	₩	3,930	5,711	2,992	3,466
Foreign exchange rate		2,510	2,840	2,254	2,283
	₩	6,440	8,551	5,247	5,748

(*1) Trading VaR is calculated using the Standardized Approach.

As of December 31, 2016 and 2015

(In millions of won)

54. Risk Management, Continued

VaR of trading position as of December 31, 2015

KDB stand-alone

		December 31, 2015			
		Average	Max	Min	December 31, 2015
Interest rate	₩	3,582	5,000	1,799	4,553
Stock price		250	734	23	72
Foreign exchange rate		1,436	9,526	504	9,526
Commodity		5	1,349	-	-
Option		267	701	96	658
Diversification effect		(1,267)	(7,615)	(322)	(5,113)
	₩	4,273	9,695	2,100	9,695

KDB Subsidiaries – Mirae Asset Daewoo Co., Ltd. (*1)

		December 31, 2015			
		Average	Max	Min	December 31, 2015
Interest rate	₩	280,607	332,507	219,226	271,922
Stock price		122,691	149,022	103,222	136,961
Foreign exchange rate		17,448	28,168	9,040	17,557
Commodity		1,480	2,637	256	256
Other		111,782	130,164	91,309	130,164
	₩	534,008	642,498	423,053	556,860

KDB Subsidiaries – Others (*1)

		December 31, 2015			
		Average	Max	Min	December 31, 2015
Interest rate	₩	3,808	4,752	2,462	3,458
Stock price		142	160	128	160
Foreign exchange rate		2,381	2,613	2,277	2,279
	₩	6,331	7,525	4,867	5,897

(*1) Trading VaR is calculated using the Standardized Approach.

As of December 31, 2016 and 2015

(In millions of won)

54. Risk Management, Continued

(iii) Market risks of non-trading positions

Management method on market risks arising from non-trading positions
The most critical market risk that arises in non-trading position is the interest rate risk. Interest rate risk is defined as the likely loss resulting from the unfavorable fluctuation of interest rate in the Group's financial condition and is measured by interest rate VaR and interest rate EaR.

Interest rate VaR is the maximum amount of decrease in net asset value resulting from the unfavorable fluctuation of interest rate. Interest rate EaR is the maximum amount of decrease in net interest income resulting from the unfavorable fluctuation of interest rate for a year.

The Group's interest rate VaR and interest rate EaR are measured through the simulation of conclusive interest rate scenario with the FERMAT and are monthly reported to the Risk Management Committee. The Management's target of interest rate VaR and interest rate EaR are approved at the beginning of the year. Additionally, the interest rate VaR and interest rate EaR on consolidated basis are calculated using the Standardized Approach to retain the consistency in the methods used by the Bank and its subsidiaries.

VaR/EaR of non-trading positions
The Group's interest rate VaR and EaR of non-trading positions as of December 31, 2016 and 2015 are as follows:

	December 31, 2016	
Interest rate shock	Interest rate VaR	Interest rate EaR
2.00%	₩ 547,889	186,937

	December 31, 2015	
Interest rate shock	Interest rate VaR	Interest rate EaR
2.00%	₩ 825,006	12,690

(iv) *Foreign currency risk*

Outstanding balances by currency with significant exposure as of December 31, 2016 and 2015 are as follows:

			December 31, 2016			
	USD	EUR	JPY	GBP	Others	Total
Financial assets:						
Cash and due from banks ₩	4,703,944	57,478	116,754	42,492	1,086,171	6,006,839
Financial assets held for trading	220,122	3,808	-	-	20,544	244,474
Financial assets designated at FVTPL	22,293	-	-	-	-	22,293
Available-for-sale financial assets	6,442,061	24,780	149,234	31,069	300,146	6,947,290
Held-to-maturity financial assets	1,383,049	-	-	-	-	1,383,049
Loans	33,886,737	1,384,285	1,414,307	81,407	552,893	37,319,629
Derivative financial assets	1,347,039	14,930	6,665	5,251	11,424	1,385,309
Other financial assets	7,243,011	98,871	404,596	5,930	495,011	8,247,419
	55,248,256	1,584,152	2,091,556	166,149	2,466,189	61,556,302
Financial liabilities:						
Deposits	6,033,444	202,792	256,125	3,553	785,829	7,281,743
Borrowings	17,373,905	111,332	965,973	-	244,829	18,696,039
Debentures	17,249,700	1,625,166	773,468	435,384	5,048,486	25,132,204
Derivative financial liabilities	1,626,855	21,560	4,596	2,435	4,995	1,660,441
Other financial liabilities	3,668,536	147,679	495,254	2,464	527,690	4,841,623
	45,952,440	2,108,529	2,495,416	443,836	6,611,829	57,612,050
Net financial position ₩	9,295,816	(524,377)	(403,860)	(277,687)	(4,145,640)	3,944,252

As of December 31, 2016 and 2015

(In millions of won)

54. Risk Management, Continued

	December 31, 2015					
	USD	EUR	JPY	GBP	Others	Total
Financial assets:						
Cash and due from banks ₩	3,580,016	52,452	39,309	19,840	908,166	4,599,783
Financial assets held for trading	74,547	-	-	-	35,994	110,541
Financial assets designated at FVTPL	62,664	-	-	-	-	62,664
Available-for-sale financial assets	6,707,129	58,793	141,244	-	342,891	7,250,057
Held-to-maturity financial assets	23,648	-	-	-	-	23,648
Loans	32,247,127	1,115,719	1,207,800	49,917	288,903	34,909,466
Derivative financial assets	1,526,341	20,308	7,984	4,000	13,647	1,572,280
Other financial assets	2,109,367	70,543	150,231	499	381,750	2,712,390
	46,330,839	1,317,815	1,546,568	74,256	1,971,351	51,240,829
Financial liabilities:						
Deposits	5,038,572	137,410	262,546	845	807,116	6,246,489
Borrowings	15,532,596	223,494	1,166,971	-	1,003,899	17,926,960
Debentures	17,454,253	1,485,903	1,418,624	434,497	5,087,357	25,880,634
Derivative financial liabilities	1,495,932	56,314	6,807	223	21,257	1,580,533
Other financial liabilities	2,327,055	53,113	173,189	981	928,075	3,482,413
	41,848,408	1,956,234	3,028,137	436,546	7,847,704	55,117,029
Net financial position ₩	4,482,431	(638,419)	(1,481,569)	(362,290)	(5,876,353)	(3,876,200)

54. Risk Management, Continued

(5) Liquidity risk management

(i) Concept

Liquidity risk is defined as the possibility of potential loss due to a temporary shortage in funds caused by a maturity mismatch or an unexpected capital outlay. Liquidity risk soars when funding rates rise, assets are sold below a normal price, or a good investment opportunity is missed.

(ii) Approach to liquidity risk management

The Group manages its liquidity risks as follows:

Allowable limit for liquidity risk

- The allowable limit for liquidity risk sets LCR, foreign currency liquidity ratio, and remaining maturity gap
- The management standards with regards to the allowable limit for liquidity risk should be set using separate and stringent set ratios in accordance with the FSS guidelines.

<Measurement Methodology>

- LCR: (High quality liquid assets / Total net cash outflows over the next 30 calendar days) X 100
- Foreign currency liquidity ratio: (Maturing liquidity asset in the interval / Maturing liquidity liability in the interval) X 100
- Remaining maturity gap: (Maturing liquidity asset in the interval - Maturing liquidity liability in the interval) / total assets X 100

Early warning indicator

To identify prematurely and cope with worsening liquidity risk trends, the Group has set up 17 indexes such as the "Foreign Exchange Stabilization Bond CDS Premium," and measures the trend monthly, weekly and daily as a means for establishing the allowable liquidity risk limit complementary measures.

Stress-Test analysis and contingency plan

- The Group evaluates the effects on the liquidity risk and identifies the inherent flaws. In the case where an unpredictable and significant liquidity crisis occurs, the Group executes risk situation analysis quarterly based on crisis specific to the Group, market risk and complex emergency, and reports to the Risk Management Committee for the Group's solvency securitization.
- The Group established detailed contingency plan to manage the liquidity risks at every risk situations.

As of December 31, 2016 and 2015

(In millions of won)

54. Risk Management, Continued

(iii) Analysis on remaining contractual maturity of financial instruments

Remaining contractual maturity analysis for non-derivative financial instruments as of December 31, 2016 and 2015 are as follows:

		December 31, 2016					
		Within 1 month	1~3 months	3~12 months	1~5 years	Over 5 years	Total
Financial assets:							
Cash and due from banks	₩	7,029,746	1,290,752	878,091	521,726	18,494	9,738,809
Financial assets held for trading		2,103,279	-	-	24,334	3,975	2,131,588
Financial assets designated at FVTPL		-	30,555	81,645	195,906	32,008	340,114
Available-for-sale financial assets		730,748	1,542,700	9,403,338	14,791,328	19,593,092	46,061,206
Held-to-maturity financial assets		3,926	-	28,825	1,092,965	4,321,362	5,447,078
Loans		10,856,842	14,464,805	48,541,425	63,722,583	18,380,594	155,966,249
Other financial assets		5,517,492	20,792	5,191,913	3,018,892	713,710	14,462,799
	₩	26,242,033	17,349,604	64,125,237	83,367,734	43,063,235	234,147,843
Financial liabilities:							
Financial liabilities designated at FVTPL	₩	30,592	269,205	1,047,972	51,145	1,148,658	2,547,572
Deposits		17,432,621	6,987,701	12,825,032	2,510,314	461,150	40,216,818
Borrowings		6,610,251	4,097,833	8,890,975	6,314,914	1,571,701	27,485,674
Debentures		5,378,757	10,244,819	45,809,435	47,663,891	19,910,532	129,007,434
Other financial liabilities		5,320,328	1,738,877	4,070,431	3,089,584	39,366	14,258,586
	₩	34,772,549	23,338,435	72,643,845	59,629,848	23,131,407	213,516,084

		December 31, 2015					
		Within 1 month	1~3 months	3~12 months	1~5 years	Over 5 years	Total
Financial assets:							
Cash and due from banks	₩	7,572,972	1,760,984	1,673,465	723,261	2,277	11,732,959
Financial assets held for trading		15,927,878	-	-	-	-	15,927,878
Financial assets designated at FVTPL		2,552,502	47,156	56,113	1,626,143	167,334	4,449,248
Available-for-sale financial assets		707,006	844,210	15,345,873	25,266,149	20,060,362	62,223,600
Held-to-maturity financial assets		2,958	1	15,409	26,022	15,697	60,087
Loans		11,325,139	14,448,853	48,433,128	66,106,624	19,337,870	159,651,614
Other financial assets		6,263,697	11,226	5,772,174	2,783,623	873,672	15,704,392
	₩	44,352,152	17,112,430	71,296,162	96,531,822	40,457,212	269,749,778
Financial liabilities:							
Financial liabilities designated at FVTPL	₩	553,508	438,779	1,723,676	9,272,047	2,031,631	14,019,641
Deposits		19,066,945	6,268,745	17,082,614	2,574,725	727,039	45,720,068
Borrowings		14,678,684	4,344,928	10,295,298	6,901,292	2,640,107	38,860,309
Debentures		4,630,249	8,439,551	35,043,441	64,587,330	18,380,039	131,080,610
Other financial liabilities		7,668,205	1,774,877	3,068,290	3,343,529	460,837	16,315,738
	₩	46,597,591	21,266,880	67,213,319	86,678,923	24,239,653	245,996,366

As of December 31, 2016 and 2015

(In millions of won)

54. Risk Management, Continued

Remaining contractual maturity analysis for derivative financial instruments as of December 31, 2016 and 2015 are as follows:

Net settlement of derivative financial instruments

		December 31, 2016					
		Within 1 month	1~3 months	3~12 months	1~5 years	Over 5 years	Total
Trading purpose derivatives:							
Currency	₩	394	2,123	(330)	-	-	2,187
Interest rate		13,818	28,718	22,160	(52,813)	(279,837)	(267,952)
Stock		(814)	(8)	-	-	-	(822)
Hedging purpose derivatives:							
Interest rate		27,622	38,959	158,181	1,166,187	2,536,018	3,926,966
	₩	41,020	69,792	180,011	1,113,374	2,256,181	3,660,379

		December 31, 2015					
		Within 1 month	1~3 months	3~12 months	1~5 years	Over 5 years	Total
Trading purpose derivatives:							
Currency	₩	2,059,417	90,427	(70,576)	(31,328)	7,047	2,054,987
Interest rate		1,691,414	1,401,567	6,843,510	10,955,059	4,400,407	25,291,957
Stock		1,307,074	4,336,156	1,190,700	420,903	799,164	8,053,997
Credit		-	120,000	50,002	149,893	-	319,895
Commodity		228,242	1,258,901	13,000	-	-	1,500,143
Hedging purpose derivatives:							
Interest rate		40,376	79,401	136,261	729,405	3,125,962	4,111,405
	₩	5,326,523	7,286,452	8,162,897	12,223,932	8,332,580	41,332,384

As of December 31, 2016 and 2015

(In millions of won)

54. Risk Management, Continued

Gross settlement of derivative instruments

	December 31, 2016					
	Within 1 month	1~3 months	3~12 months	1~5 years	Over 5 years	Total
Trading purpose derivatives:						
Currency						
Inflow	₩ 24,466,869	27,324,235	65,806,263	38,704,222	3,678,791	159,980,378
Outflow	24,304,483	27,297,050	65,337,264	38,589,615	3,710,967	159,239,379
Hedging purpose derivatives:						
Currency						
Inflow	34,820	241,600	3,567,771	18,149,439	1,185,221	23,178,852
Outflow	34,248	290,272	3,777,627	18,671,340	1,168,538	23,942,024
Total inflow	₩ 24,501,689	27,565,835	69,374,034	56,853,661	4,864,012	183,159,230
Total outflow	₩ 24,338,731	27,587,322	69,114,891	57,260,955	4,879,505	183,181,403

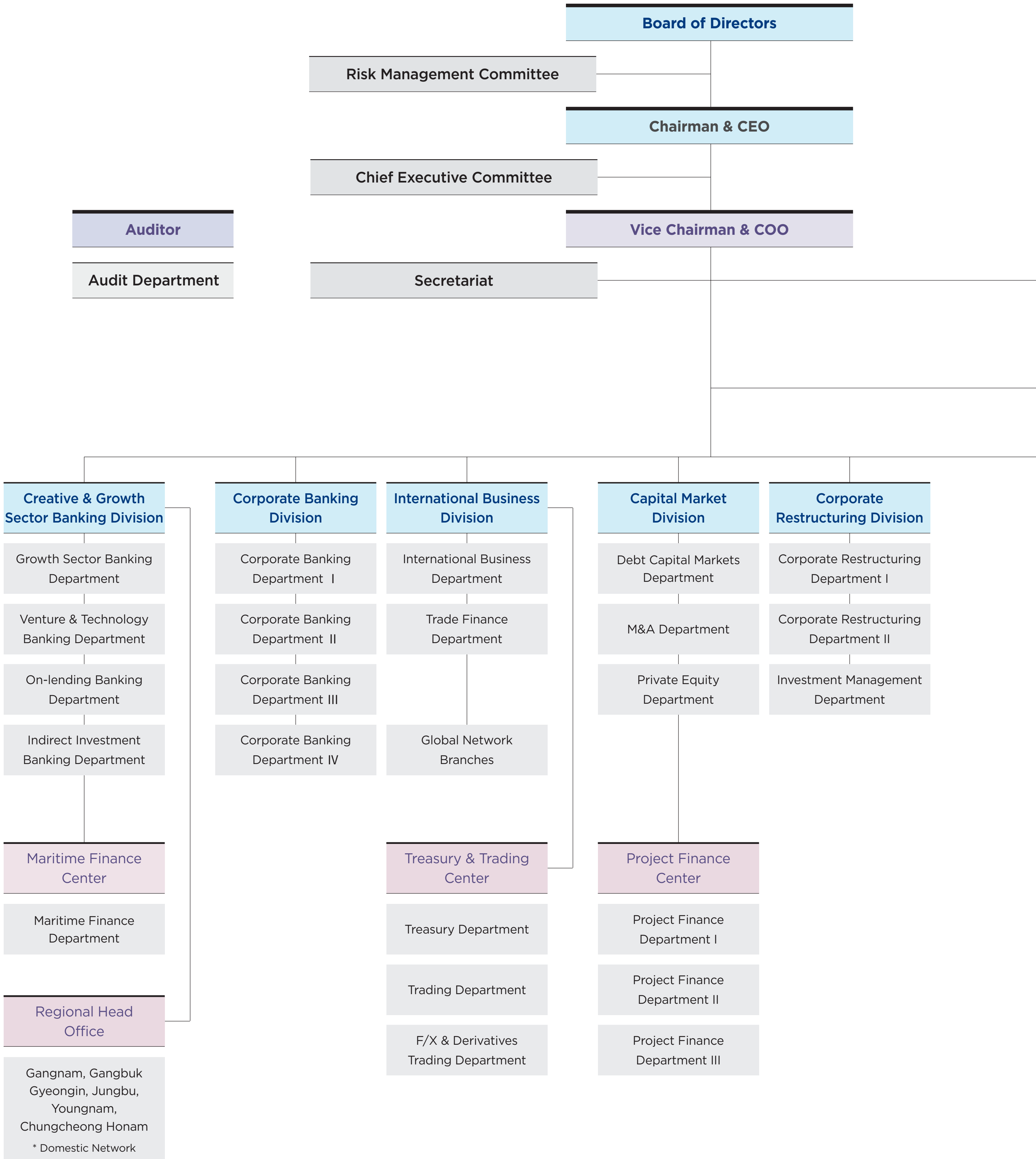
	December 31, 2015					
	Within 1 month	1~3 months	3~12 months	1~5 years	Over 5 years	Total
Trading purpose derivatives:						
Currency						
Inflow	₩ 41,565,281	23,313,790	51,377,158	36,355,184	1,749,220	154,360,633
Outflow	33,588,354	23,390,376	51,285,117	36,231,598	1,745,941	146,241,386
Hedging purpose derivatives:						
Currency						
Inflow	1,212,395	1,380,346	2,029,300	18,342,893	1,300,822	24,265,756
Outflow	1,308,777	1,536,126	2,063,147	18,887,314	1,290,673	25,086,037
Total inflow	₩ 42,777,676	24,694,136	53,406,458	54,698,077	3,050,042	178,626,389
Total outflow	₩ 34,897,131	24,926,502	53,348,264	55,118,912	3,036,614	171,327,423

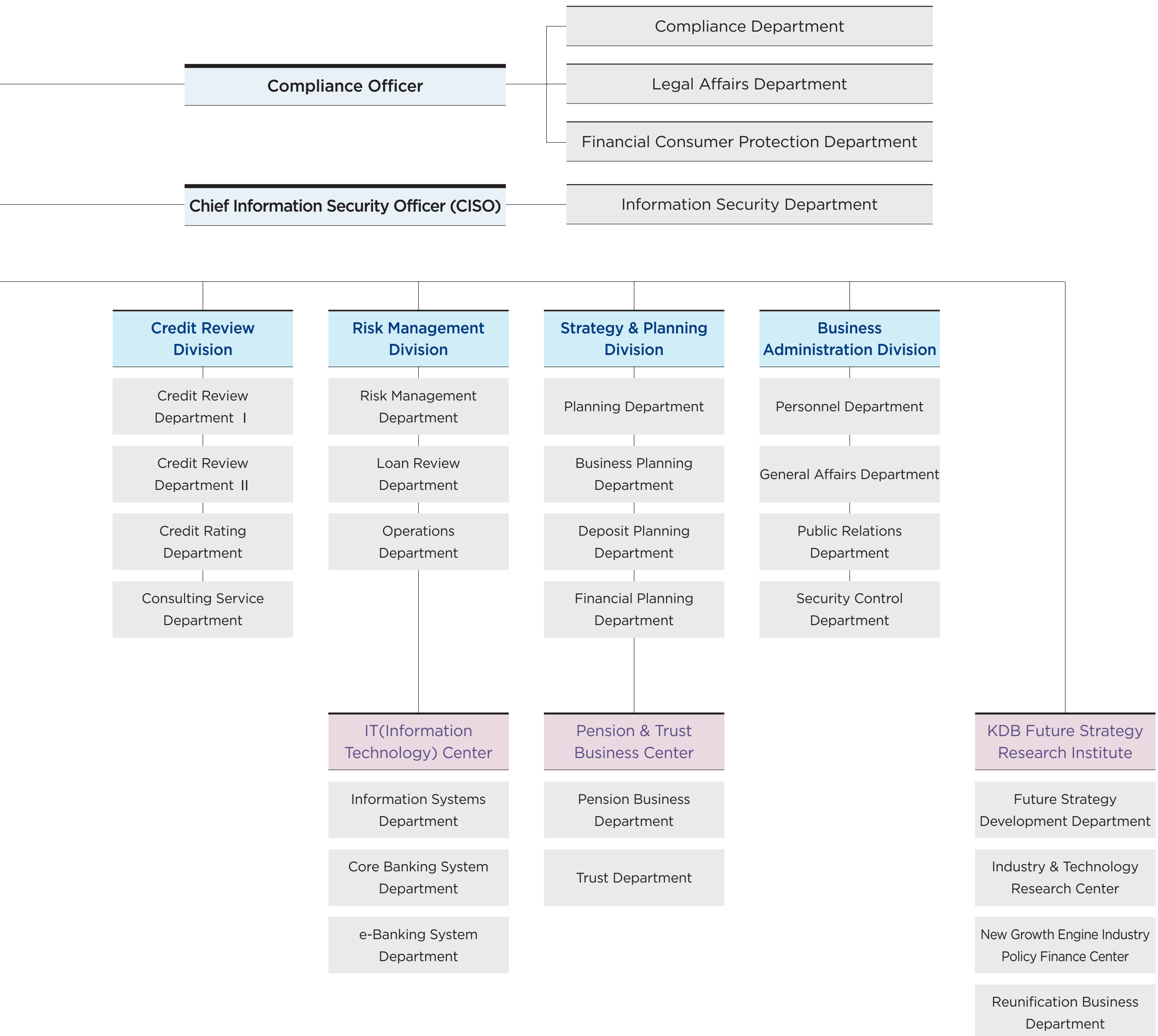
Remaining contractual maturity analysis for guarantees and commitments as of December 31, 2016 and 2015 are as follows:

	December 31, 2016					
	Within 1 month	1~3 months	3~12 months	1~5 years	Over 5 years	Total
Guarantees	₩ 1,353,463	1,712,613	4,255,960	3,041,765	1,722,437	12,086,238
Commitments	6,230	143,324	964,281	3,414,566	2,572,101	7,100,502
	₩ 1,359,693	1,855,937	5,220,241	6,456,331	4,294,538	19,186,740

	December 31, 2015					
	Within 1 month	1~3 months	3~12 months	1~5 years	Over 5 years	Total
Guarantees	₩ 1,920,601	1,809,835	4,642,903	4,297,905	2,685,322	15,356,566
Commitments	1,496,050	514,411	735,271	3,276,259	2,482,124	8,504,115
	₩ 3,416,651	2,324,246	5,378,174	7,574,164	5,167,446	23,860,681

Organization




Compliance Officer
Compliance Department
Legal Affairs Department
Financial Consumer Protection Department
Chief Information Security Officer (CISO)
Information Security Department
Credit Review Division
Credit Review Department Ⅰ
Credit Review Department Ⅱ
Credit Rating Department
Consulting Service Department
Risk Management Division
Risk Management Department
Loan Review Department
Operations Department
Strategy & Planning Division
Planning Department
Business Planning Department
Deposit Planning Department
Financial Planning Department
Business Administration Division
Personnel Department
General Affairs Department
Public Relations Department
Security Control Department
IT(Information Technology) Center
Information Systems Department
Core Banking System Department
e-Banking System Department
Pension & Trust Business Center
Pension Business Department
Trust Department
KDB Future Strategy Research Institute
Future Strategy Development Department
Industry & Technology Research Center
New Growth Engine Industry Policy Finance Center
Reunification Business Department

Global Network

Headquarters

14 Eunhaeng-ro, Yeongdeungpo-gu,
Seoul 07242, Korea

- Headquarters
- Branch
- Subsidiary
- Representative Office

Overseas Branches

Tokyo Branch
GranTokyo North Tower 36F 1-9-1,
Marunouchi, Chiyoda-ku, Tokyo,
100-6736 Japan
Tel: +81-3-3214-4541
Fax: +81-3-3214-6933

Shanghai Branch
Room 3810, 38th Floor, Shanghai World
Financial Center, No.100, Century
Avenue, Pudong New Area, Shanghai,
China 200120
Tel: +86-21-6887-1234
Fax: +86-21-6877-5556

Singapore Branch
138 Market Street, #35-02/03,
CapitaGreen, Singapore 048946
Tel: +65-6320-7400
Fax: +65-6320-7413

New York Branch
320 Park Ave. 32nd Floor, New York, NY
10022, U.S.
Tel: +212-688-7686
Fax: +212-758-3296

London Branch
16th Fl. 99 Bishopsgate, London, EC2M
3XD, United Kingdom
Tel: +44-20-7426-3550
Fax: +44-20-7426-3567

Guangzhou Branch
Suite 1702, 17th Floor, International
Finance Place, No.8 Huaxia Road, Pearl
River New Town, Guangzhou,
China 510623
Tel: +86-20-8550-6008
Fax: +86-20-8550-6010

Beijing Branch
27th Floor, West Tower, Twin Towers,
B-12 Jianguomenwai Avenue, Chaoyang
District, Beijing, China 100022
Tel: +86-10-6568-8858
Fax: +86-10-6568-6078

Shenyang Branch
31F, CR Building, No.286 Qingnian
Street, Heping District, Shenyang,
Liaoning Province, China 110004
Tel: +86-24-3125-9988
Fax: +86-24-3125-5096

Qingdao Branch
Room 01-06, 43th Floor, The HNA
Center, No.234 Yan'an 3rd Road, Shinan
District, Qingdao, Shandong,
China 266071
Tel: +86-532-8288-7700
Fax: +86-532-8288-7318

Subsidiaries

KDB Asia Limited (Hong Kong)
Suite 2005-2010, Two Int'l Finance
Centre, 8 Finance Street, Central,
Hong Kong
Tel: +852-2524-7011
Fax: +852-2810-4447

KDB Ireland Limited
Ground Fl, Russell House, Stoke's Place,
St Stepen's Green, Dublin 2, Ireland
Tel: +353-1-4753-644
Fax: +353-1-4753-658

KDB Bank Europe Ltd.
H-1054 Budapest V., Bajcsy-Zsilinszky ut
42-46 Hungary
Tel: +36-1-374-9903
Fax: +36-1-328-5454

Banco KDB do Brasil S.A.
Av. Faria Lima 3400, 15˚ andar Conj.152
Itaim Bibi, São Paulo, SP, Brasil
CEP: 04538-132
Tel: +55-11-2138-0000
Fax: +55-11-2138-0150

KDB Bank Uzbekistan
3, Bukhoro Street, Tashkent 100047,
Uzbekistan
Tel: +998-71-120-8000
Fax: +998-71-120-6970

Representative Offices

Frankfurt Representative Office
Bockenheimer Landstraße 51-53, 60325 Frankfurt am Main, Germany
Tel: +49-69-920713-00
Fax: +49-69-920713-99

Ho Chi Minh City Representative Office
Unit 604, Kumho Asiana Plaza Saigon, 39 Le Duan, District 1, Ho Chi Minh City, Vietnam
Tel: +84-8-6291-7870
Fax: +84-8-6291-7672

Abu Dhabi Representative Office
Unit 1302, 13th Floor, Tower 3, Etihad Towers, Abu Dhabi, UAE
Tel: +971-2-666-7173

Yangon Representative Office
#1808 18th Floor, Sakura Tower, No. 339 Bogyoke Aung San Road, Kyauktada Township, Yangon, Myanmar
Tel: +95-1-255150~1
Fax: +95-1-255152

Moscow Representative Office
Office 804, Entrance 3, World Trade Center, Krasnopresnenskaya nab. 12, 123610, Moscow, Russia
Tel: +7-495-669-6743

Bangkok Representative Office
15th 5L Athenee Tower, 63 Wireless Road (Witthayu), Lumphini, Pathumwan, Bangkok 10330, Thailand
Tel: +66-2-168-8499
Fax: +66-2-168-8500

Manila Representative Office
18F, Tower 1, The Enterprise Center, 6766 Ayala Ave. corner Paseo de Roxas, Legaspi Village, Makati City, Metro Manila, Philippines
Tel: +63-2-556-2267
Fax: +63-2-556-0912

Sydney Representative Office
Suite 3304, 33F, MLC Center, 19-29 Martin Place, Sydney NSW2000, Australia
Tel: +61-2-9221-3638

KDB Bank

14 Eunhaeng-ro, Yeongdeungpo-gu,
Seoul 07242, Korea
Tel. +82-2-787-5000
www.kdb.co.kr