BNK FINANCIAL GROUP INC.
and Subsidiaries

Consolidated Financial Statements
December 31, 2017

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

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

We have audited the accompanying consolidated financial statements of BNK Financial Group Inc. and its subsidiaries (collectively referred to as the "Group") which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

Management's Responsibilities for the Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities
Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of BNK Financial Group Inc. and its subsidiaries as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Korean IFRS.

Other Matters

The consolidated financial statements of BNK Financial Group Inc. and its subsidiaries for the year ended December 31, 2016, were audited by Deloitte Anjin LLC who expressed an unqualified opinion on those statements on March 15, 2017.

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

Seoul, Korea
March 15, 2018

This report is effective as of March 15, 2018, 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.

BNK FINANCIAL GROUP INC. and Subsidiaries

Consolidated Statements of Financial Position

December 31, 2017 and 2016

(in millions of Korean won)	Notes		2017		2016
Assets					
Cash and due from banks	4,6,7,41	₩	3,142,147	₩	3,414,051
Financial assets at fair value through profit or loss ("FVTPL")	4,6,8,11		1,400,100		1,668,567
Available-for-sale ("AFS") financial assets	4,6,9,11		5,822,006		6,139,928
Held-to-maturity ("HTM") financial assets	4,6,10,11		6,671,317		6,201,445
Loans and receivables	4,6,12,13,14		75,291,882		74,087,010
Derivative assets	4,6,15		79,605		157,203
Investments in associates	16		62,998		32,351
Property and equipment	17		855,644		801,045
Intangible assets	18		312,769		324,939
Investment property	19		186,415		137,814
Non-current assets held for sale			-		26,172
Deferred tax assets	36		1,658		1,433
Other assets	20		523,436		490,231
Total assets		₩	94,349,977	₩	93,482,189
Liabilities					
Deposit liabilities	4,6,21	₩	69,824,592	₩	67,604,391
Borrowings	4,6,22		5,116,421		6,332,708
Debentures	4,6,23		8,807,408		8,781,598
Derivative liabilities	4,6,15		115,823		156,714
Net defined benefit liabilities	24		31,729		7,538
Provisions	25,38		44,973		108,432
Current tax liabilities	36		33,879		81,861
Deferred tax liabilities	36		20,977		37,879
Other liabilities	4,6,26		2,698,156		3,283,916
Total liabilities			86,693,958		86,395,037
Equity					
Equity attributable to owners of the Parent Company					
Share capital	27		1,629,676		1,629,676
Hybrid equity securities	27		259,277		259,277
Other paid-in capital	27		786,783		789,802
Other components of equity	27		(36,056)		2,191
Retained earnings	27		4,417,881		4,101,672
			7,057,561		6,782,618
Non-controlling interest			598,459		304,534
Total equity			7,656,020		7,087,152
Total liabilities and equity		₩	94,349,978	₩	93,482,189

BNK FINANCIAL GROUP INC. and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2017 and 2016

(in millions of Korean won, except per share amounts)	**Notes**		**2017**		**2016**
Net interest income	28				
Interest income		₩	3,353,377	₩	3,256,535
Interest expenses			(1,072,756)		(1,116,142)
			2,280,621		2,140,393
Net fee and commission income	29				
Commission income			312,533		307,240
Commission expenses			(152,820)		(139,178)
			159,713		168,062
Gain on financial assets at FVTPL	30		15,014		4,230
Gain on AFS financial assets	31		38,225		55,069
Contribution to provision for credit loss	32		(619,466)		(431,384)
General and administrative expenses	33		(1,137,667)		(1,122,152)
Other operating income (expenses)	15,34				
Gain on foreign currency transaction			60,632		9,059
Gain (loss) from derivatives			(21,733)		17,536
Other operating income			185,236		218,031
Other operating expenses			(366,251)		(346,564)
Operating profit			594,324		712,280
Non-operating income (expenses)	35				
Share of profit (loss) of associates			(152)		649
Other income			17,600		21,019
Other expenses			(54,022)		(45,545)
			(36,574)		(23,877)
Profit before income tax			557,750		688,403
Income tax expense	36		(132,786)		(170,290)
Profit for the year	5,37		424,964		518,113
Profit is attributable to:					
Owners of the Parent Company			403,100		501,611
Non-controlling interest			21,864		16,503
Other comprehensive income, net of tax	27				
Items that will not be reclassified to profit or loss					
Remeasurements of net defined benefit liabilities			(17,929)		(1,255)
Items that may be subsequently reclassified to profit or loss					
Changes in the fair value of AFS financial assets			(15,923)		(19,349)
Exchange differences on translation of foreign operations			(13,665)		4,504
Gain (loss) on valuation of hedges of net investments in foreign operations			9,270		(5,603)
Share of other comprehensive income of associates			-		(66)
Other comprehensive income for the year, net of tax			(38,247)		(21,769)
Total comprehensive income for the year		₩	386,717	₩	496,344
Total comprehensive income for the year is attributable to:					
Owners of the Parent Company		₩	364,853	₩	479,843
Non-controlling interests			21,864		16,503
Earnings per share *(in Korean won)*	37				
Basic and diluted earnings per share		₩	1,200	₩	1,522

BNK FINANCIAL GROUP INC. and Subsidiaries

Consolidated Statements of Changes in Equity

Years Ended December 31, 2017 and 2016

	Attributable to owners of the Parent Company							
(in millions of Korean won)	**Share capital**	**Hybrid equity securities**	**Other paid-in capital**	**Other components of equity**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at January 1, 2016	₩ 1,279,676	₩ 259,277	₩ 672,809	₩ 23,959	₩ 3,650,495	₩ 5,886,216	₩ 304,466	₩ 6,190,682
Dividends	-	-	-	-	(38,388)	(38,388)	-	(38,388)
Issueance of shares	350,000	-	116,993	-	-	466,993	-	466,993
Dividends on hybrid equity securities	-	-	-	-	(12,046)	(12,046)	(16,435)	(28,481)
Total comprehensive income								
Profit for the year	-	-	-	-	501,611	501,611	16,503	518,114
Other comprehensive income								-
Remeasurements of net defined benefit liabilities	-	-	-	(1,255)	-	(1,255)	-	(1,255)
Changes in the fair value of the AFS financial assets	-	-	-	(19,349)	-	(19,349)	-	(19,349)
Exchange differences on translation of foreign operations	-	-	-	4,504	-	4,504	-	4,504
Loss on valuation of hedges of net investments in foreign operations	-	-	-	(5,603)	-	(5,603)	-	(5,603)
Share of other comprehensive income of associates	-	-	-	(66)	-	(66)	-	(66)
Balance at December 31, 2016	₩ 1,629,676	₩ 259,277	₩ 789,802	₩ 2,190	₩ 4,101,672	₩ 6,782,617	₩ 304,534	₩ 7,087,151
Balance at January 1, 2017	₩ 1,629,676	₩ 259,277	₩ 789,802	₩ 2,191	₩ 4,101,672	₩ 6,782,618	₩ 304,534	₩ 7,087,152
Dividends	-	-	-	-	(74,962)	(74,962)	-	(74,962)
Issue of shares	-	-	-	-	-	-	298,905	298,905
Dividends for hybrid equity securities	-	-	-	-	(11,930)	(11,930)	(21,497)	(33,427)
Acquisition of BNK Asset Management Co. Ltd's equity	-	-	(3,019)	-	-	(3,019)	(5,348)	(8,367)
Total comprehensive income								
Profit for the year	-	-	-	-	403,100	403,100	21,864	424,964
Other comprehensive income								
Remeasurements of net defined benefit liabilities	-	-	-	(17,929)	-	(17,929)	-	(17,929)
Changes in the fair value of AFS financial assets	-	-	-	(15,923)	-	(15,923)	-	(15,923)
Loss on overseas operations translation	-	-	-	(13,665)	-	(13,665)	-	(13,665)
Gain on valuation of hedges of net investments in foreign operations	-	-	-	9,270	-	9,270	-	9,270
Balance at December 31, 2017	₩ 1,629,676	₩ 259,277	₩ 786,783	₩ (36,056)	₩ 4,417,880	₩ 7,057,560	₩ 598,458	₩ 7,656,018

BNK FINANCIAL GROUP INC. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31, 2017 and 2016

(in millions of Korean won)	**Notes**		**2017**		**2016**
Cash flows from operating activities					
Profit for the year		₩	424,964	₩	518,114
Adjustments to profit for the year:					
Interest income			(3,353,377)		(3,256,535)
Interest expense			1,072,756		1,116,142
Gain on financial assets at FVTPL, net			(15,014)		(4,230)
Changes in fair value of the AFS financial assets			(38,225)		(55,069)
Contribution to provision for credit loss			549,026		413,934
Loss (gain) on foreign currency translation			(25,478)		6,764
Loss (gain) on valuation of derivatives, net			11,557		(3,637)
Depreciation			62,204		64,105
Amortization			75,079		75,243
Post-employment benefits			51,879		52,710
Other operating expenses, net			109,207		(62,403)
Share of loss (profit) of associates			152		(649)
Loss on property and equipment, and intangible assets			3,624		17,770
Income tax expense			132,786		170,290
			(1,363,824)		(1,465,565)
Changes in operating assets and liabilities:					
Decrease (increase) in due from banks			426,468		(608,065)
Decrease (increase) in financial assets at FVTPL			283,215		(653,695)
Increase in loans receivables			(1,950,860)		(2,417,412)
Increase or decrease in derivative assets and liabilities			27,987		10,748
Increase in other assets			(170,164)		(14,551)
Increase in deposit liabilities			2,298,832		3,232,672
Decrease in provisions			(315)		(699)
Decrease in other liabilities			(637,354)		(1,627,928)
Decrease in defined benefit obligation			(27,522)		(24,406)
Decrease (increase) in plan assets			(26,370)		(45,283)
			223,917		(2,148,619)
Interest received			3,393,995		3,249,847
Dividend received			33,444		42,717
Interest paid			(998,335)		(1,172,028)
Income tax paid			(183,909)		(150,272)
Net cash inflow (outflow) from operating activities		₩	1,530,252	₩	(1,125,806)

BNK FINANCIAL GROUP INC. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31, 2017 and 2016

(in millions of Korean won)	Notes		2017		2016
Cash flows from investing activities					
Proceeds from disposal of AFS financial assets		₩	3,439,327	₩	5,079,415
Payments for AFS financial assets			(3,171,588)		(5,978,920)
Proceeds from disposal of HTM financial assets			1,163,334		1,919,325
Payments for HTM financial assets			(1,638,449)		(1,272,786)
Proceeds from disposal of investments in associates			75,456		30,838
Payments for investments in associates			(90,403)		(27,305)
Proceeds from disposal of property and equipment			4,189		615
Payments for property and equipment			(151,337)		(104,104)
Proceeds from disposal of intangible assets			457		551
Payments for intangible assets			(57,781)		(20,899)
Others			(510)		1,389
Net cash outflow from investing activities			(427,305)		(371,881)
Cash flows from financing activities					
Increase in borrowings			42,030,954		55,619,181
Decrease in borrowings			(43,232,016)		(55,429,729)
Issuance of debentures			2,982,579		2,576,149
Repayment of debentures			(2,895,620)		(1,968,000)
Capital increase with consideration			-		466,993
Issuance of hybrid equity securities			298,905		-
Dividends paid			(108,388)		(66,754)
Others			(8,367)		-
Net cash inflow (outflow) from financing activities			(931,953)		1,197,840
Net increase (decrease) in cash and cash equivalents			170,994		(299,847)
Cash and cash equivalents at the beginning of the year			858,612		1,143,887
Effects of exchange rate changes on cash and cash equivalents			(15,025)		14,573
Cash and cash equivalents at the end of the year	41	₩	1,014,581	₩	858,613

1. General Information

General information of BNK Financial Group Inc. ("BNK Financial Group" or the "Parent Company"), which is a controlling entity in accordance with Korean IFRS 1110 *Consolidated Financial Statements*, and its subsidiaries (collectively referred to as the "Group"), is as follows:

1.1 BNK Financial Group

BNK Financial Group was incorporated on March 15, 2011, in accordance with the provisions of the Financial Holding Company Act, whereby holders of the ordinary share of Busan Bank; BNK Securities Co., Ltd.; BNK Capital Co., Ltd.; and BNK Credit Information Co., Ltd. transferred all of their shares to the Parent Company and in return received shares of the Parent Company's ordinary share in order to control, manage and provide financial support to subsidiaries engaged in financial business or financial industry-related subsidiaries. Meanwhile, BNK Financial Group established BNK Information System Co., Ltd. and BNK Savings Bank Co., Ltd. as its subsidiaries with 100% investment in 2011. The Parent Company obtained control of Kyongnam Bank by acquiring 56.97% of its shares in October 2014 and ultimately acquired 100% of shares of Kyongnam Bank through comprehensive exchange of shares on June 4, 2015. In July 2015, the Parent Company also obtained 51.01% of shares in BNK Asset Management Co., Ltd. and established it as its subsidiary through paid-in capital increase and acquisition of ownership. In December 2017, the Parent Company took over the rest of BNK Asset Management Co., Ltd.'s shares, accordingly, it became a wholly-owned subsidiary. The headquarters of BNK Financial Group is located at Busan Nam-gu Munhyeongeumyu-ro, 30. Meanwhile, the Parent Company's share capital as at December 31, 2017 amounts to ₩1,629,676 million with 325,935,246 outstanding shares.

1.2 Consolidated Subsidiaries

Details of the consolidated subsidiaries as at December 31, 2017 and 2016, are as follows:

Name of subsidiary	Industry	Location	Closing month	Ownership interests (%) 2017	Ownership interests (%) 2016
BNK Financial Group:					
Busan Bank Co., Ltd.	Banking	Korea	December 31	100	100
Kyongnam Bank Co., Ltd.	Banking	Korea	December 31	100	100
BNK Securities Co., Ltd.	Investment brokerage and trading	Korea	December 31	100	100
BNK Capital Co., Ltd.	Specialized credit financial business	Korea	December 31	100	100
BNK Savings Bank Co., Ltd.	Saving bank services	Korea	December 31	100	100
BNK Asset Management Co., Ltd.	Financial advisory and collective investment	Korea	December 31	100	51.01
BNK Credit Information Co., Ltd.	Credit investigation and collection agency	Korea	December 31	100	100
BNK System Co., Ltd.	System software developing and supply	Korea	December 31	100	100
BNK 'Strong' Short-term Government Bond No. 1	Beneficiary certificate	Korea	December 31	90.44	87.87
Busan Bank:					
Non-restricted money trust account [1]	Trust business	Korea	December 31	-	-
Development trust account [1]	Trust business	Korea	December 31	-	-

Name of subsidiary	Industry	Location	Closing month	Ownership interests (%) 2017	2016
Retirement pension trust [1]	Trust business	Korea	December 31	-	-
Personal pension trust [1]	Trust business	Korea	December 31	-	-
Retirement trust [1]	Trust business	Korea	December 31	-	-
New private pension trust [1]	Trust business	Korea	December 31	-	-
Pension trust [1]	Trust business	Korea	December 31	-	-
Installment money in trust [1]	Trust business	Korea	December 31	-	-
Household money in trust [1]	Trust business	Korea	December 31	-	-
Kyongnam Bank Co., Ltd.:					
Consus 6th LLC [2]	Special Purpose Company (SPC)	Korea	December 31	-	-
Retirement pension trust [1]	Trust business	Korea	December 31	-	-
Personal pension trust [1]	Trust business	Korea	December 31	-	-
Development trust account [1]	Trust business	Korea	December 31	-	-
Retirement trust [1]	Trust business	Korea	December 31	-	-
New private pension trust [1]	Trust business	Korea	December 31	-	-
Pension trust [1]	Trust business	Korea	December 31	-	-
Installment money in trust [1]	Trust business	Korea	December 31	-	-
Household money in trust [1]	Trust business	Korea	December 31	-	-
Company money in trust [1]	Trust business	Korea	December 31	-	-
Kyongnam Bank Principal and Interest Trust [2]	Trust business	Korea	December 31	-	-
Kyongnam Bank Preservation Trust of Principal [2]	Trust business	Korea	December 31	-	-
Daishin Balance Private Securities Investment Trust 51st	Beneficiary certificate	Korea	December 31	100	100
Daishin Balance Private Securities Investment Trust 55th	Beneficiary certificate	Korea	December 31	100	100
HDC Dual Private Securities Investment Trust 1st	Beneficiary certificate	Korea	December 31	100	100
Hanhwa Private Securities Investment Trust 15th	Beneficiary certificate	Korea	December 31	100	100
BNK Capital Co., Ltd.:					
BNKC (Cambodia) MFI Plc	Specialized credit financial business	Cambodia	December 31	100	100
BNK Capital Myanmar Co., Ltd.	Specialized credit financial business	Myanmar	March 31	99.99	99.99
BNK Capital Lao Leasing Co., Ltd	Specialized credit financial business	Laos	December 31	94.99	94.99
BNK Auto First Securitization Specialty Co., Ltd. [2]	Securitization business	Korea	December 31	100	100
KEB Hana bank money and bond in trust [1]	Trust business	Korea	December 31	-	-

[1] As a money trust in accordance with the Trust Business Act, the Group owns less than 50% ownerships of the trust. However, the Group is considered to have control over the trust because the Group is exposed to variable returns from its involvement with the trust and has the ability to affect those returns through its power to direct the activities of the trust.

[2] As a structured company for purpose of marketable securities investment, the Group owns less than 50% ownerships of the entity. However, the Group is considered to have control over the entity because the Group is exposed to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

1.3 Summarized Financial Information

Summarized financial information for consolidated subsidiaries as at and for the years ended December 31, 2017 and 2016, is as follows:

(in millions of Korean won)

Name of subsidiary	2017 Assets	Liabilities	Equity	Operating income	Operating profit	Profit (loss) for the year	Total comprehensive income
Busan Bank Co., Ltd. and its Subsidiaries	₩51,232,105	₩46,777,012	₩4,455,093	₩2,686,807	₩ 277,948	₩203,205	₩ 180,708
Kyongnam Bank Co., Ltd. and its Subsidiaries	36,683,540	33,574,450	3,109,090	1,489,862	288,459	221,542	204,781
BNK Capital Co., Ltd. and its Subsidiaries	4,812,026	4,201,734	610,292	488,024	84,555	62,638	57,964
BNK Securities Co., Ltd.	886,119	675,902	210,217	133,918	3,831	1,899	2,097
BNK Savings Bank Co., Ltd.	849,837	722,821	127,016	51,908	14,766	11,584	11,564
BNK Asset Management Co., Ltd.	41,753	887	40,866	5,565	829	708	713
BNK Credit Information Co., Ltd.	9,420	568	8,852	5,019	1,100	863	863
BNK System Co., Ltd.	9,831	2,721	7,110	57,933	969	768	768

(in millions of Korean won)

Name of subsidiary	2016 Assets	Liabilities	Equity	Operating income	Operating profit	Profit (loss) for the year	Total comprehensive income
Busan Bank Co., Ltd. and its Subsidiaries	₩51,649,492	₩47,436,007	₩4,213,485	₩2,778,671	₩ 426,608	₩326,865	₩ 316,994
Kyongnam Bank Co., Ltd. and its Subsidiaries	35,559,533	32,712,012	2,847,521	1,499,136	267,892	208,165	190,973
BNK Capital Co., Ltd. and its Subsidiaries	4,692,578	4,130,223	562,355	463,482	74,328	57,207	57,070
BNK Securities Co., Ltd.	1,064,121	849,993	214,128	157,750	12,518	9,356	8,885
BNK Savings Bank Co., Ltd.	769,064	653,632	115,432	49,855	12,918	(8,050)	(8,050)
BNK Asset Management Co., Ltd.	10,624	457	10,167	5,032	204	139	139
BNK Credit Information Co., Ltd.	8,587	599	7,988	4,462	907	687	687
BNK System Co., Ltd.	8,722	2,379	6,343	59,820	1,000	767	767

1.4 Changes in Scope for Consolidation

There were no subsidiaries newly included in the consolidation for the years ended December 31, 2017 and 2016. The subsidiaries excluded from the consolidation for the year ended December 31, 2016, are as follows:

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

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

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

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

The preparation of financial statements requires the use of critical accounting estimates. Management also needs to exercise judgement in applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

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

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

2.2 Changes in Accounting Policies and Disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2017. The adoption of these amendments did not have any material impact on the financial statements.

- Amendments to Korean IFRS 1007 *Statement of Cash Flows*

Amendments to Korean IFRS 1007 *Statement of Cash flows* require to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

- Amendments to Korean IFRS 1012 *Income Tax*

Amendments to Korean IFRS 1012 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Korean IFRS 1012 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments issued clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice.

- Amendments to Korean IFRS 1112 *Disclosures of Interests in Other Entities*

Amendments to Korean IFRS 1112 clarify when an entity’s interest in a subsidiary, a joint venture or an associate is classified as held for sales in accordance with Korean IFRS 1105, the entity is required to disclose other information except for summarized financial information in accordance with Korean IFRS 1112.

(b) New standards and interpretations not yet adopted by the Group

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2017 and have not been early adopted by the Group are set out below.

- Amendments to Korean IFRS 1028 *Investments in Associates and Joint Ventures*

When an investment in an associate or a joint venture is held by, or it held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with Korean IFRS 1109. The amendments clarify that an entity shall make this election separately for each associate of joint venture, at initial recognition of the associate or joint venture. The amendments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the amendments to have a significant impact on the financial statements because the Group is not a venture capital organization.

- Amendment to Korean IFRS 1040 *Transfers of Investment Property*

Paragraph 57 of Korean IFRS 1040 clarifies that a transfer to, or from, investment property, including property under construction, can only be made if there has been a change in use that is supported by evidence, and provides a list of circumstances as examples. The amendment will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the amendment to have a significant impact on the financial statements.

- Amendments to Korean IFRS 1102 *Share-based Payment*

Amendments to Korean IFRS 1102 clarify 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. Amendments also clarify that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The amendments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the amendments to have a significant impact on the financial statements.

- Enactment to Interpretation 2122 *Foreign Currency Transaction and Advance Consideration*

According to these enactment, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. These enactment will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the enactment to have a significant impact on the financial statements.

- Enactment of Korean IFRS 1109 *Financial Instruments*

The new standard for financial instruments issued on September 25, 2015 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. This standard will replace Korean IFRS 1039 *Financial Instruments: Recognition and Measurement*. The Group will apply the standards for annual periods beginning on or after January 1, 2018.

The standard requires retrospective application with some exceptions. For example, an entity is not required to restate prior period in relation to classification and measurement (including impairment) of financial instruments. The standard requires prospective application of its hedge accounting requirements for all hedging relationships except the accounting for time value of options and other exceptions.

Korean IFRS 1109 *Financial Instruments* requires three main areas including: (a) classification and measurement of financial assets on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets, (b) a new impairment model of financial instruments based on the expected credit losses, and (c) hedge accounting including expansion of the range of eligible hedging instruments and hedged items that qualify for hedge accounting or change of a method of hedge effectiveness assessment.

An effective implementation of Korean IFRS 1109 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and the system stabilization. The impact on the Group's financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Group and macroeconomic variables.

With the implementation of Korean IFRS 1109, the Group prepared for internal management process or completed accounting system adjustments for financial instruments reporting. The Group performed an impact assessment to identify potential financial effects of applying Korean IFRS 1109. The assessment was performed based on retainable information as at December 31, 2017, and the results of the assessment are explained as below.

(a) Classification and Measurement of Financial Assets

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Group's business model for managing the financial assets and contractual terms of cash flow. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. If a hybrid contract contains a host that is a financial asset, the classification of the hybrid contract shall be determined for the entire contract without separating the embedded derivative.

Business model for the contractual cash flows characteristics	**Solely represent payments of principal and interest**	**All other**
Hold the financial asset for the collection of the contractual cash flows	Measured at amortized cost[1]	Recognized at fair value through profit or loss[2]
Hold the financial asset for the collection of the contractual cash flows and sale	Recognized at fair value through other comprehensive income [1]	
Hold for sale	Recognized at fair value through profit or loss	

[1] A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).

[2] Equity investments not held for trading can be recorded in other comprehensive income (irrevocable).

With the implementation of Korean IFRS 1109, the criteria to classify the financial assets at amortized cost or at fair value through other comprehensive income are more strictly applied than the criteria applied with Korean IFRS 1039. Accordingly, the financial assets at fair value through profit or loss may increase by implementing Korean IFRS 1109 and may result an extended fluctuation in profit or loss.

As at December 31, 2017, the Group owns loans and receivables of ₩ 78,434,029 million, financial assets held-to-maturity of ₩ 6,671,317 million, financial assets available-for-sales of ₩ 5,822,007 million and financial assets at fair value through profit or loss (excluding derivatives) of ₩ 1,400,100 million.

According to Korean IFRS 1109, debt securities whose contractual cash flows do not represent solely payments of principal and interest and held for trading, and equity securities that are not designated as instruments measured at fair value through other comprehensive income are measured at fair value through profit or loss. As at December 2017, the Group holds debt and equity securities and other financial assets classified as financial assets at fair value through profit or loss (excluding derivatives) that amount to ₩ 1,094,872 million, ₩ 24,193 million and ₩ 281,035 million, respectively.

According to Korean IFRS 1109, debt securities are measured at fair value through other comprehensive income if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and the contractual cash flows represents solely payments of principal and interest on a specific date under contract terms. As at December 31, 2017, the Group holds debt and equity securities of ₩ 5,369,438 million classified as financial assets available-for-sale in total.

According to Korean IFRS 1109, equity securities that are not held for trading, the Group can make an irrevocable election at initial recognition to classify the instruments as assets measured at fair value through other comprehensive income, which all subsequent changes in fair value being recognized in other comprehensive income and not recycled to profit or loss. As at

December 31, 2017, the Group holds equity securities of ₩ 452,568 million classified as financial assets available-for-sale.

According to Korean IFRS 1109, a debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. As at December 31, 2017, the Group measured loans and receivables of ₩ 78,434,029 million and financial assets held-to-maturity of ₩ 6,671,317 million at amortized costs.

The following table presents the impact of the change in classification and measurement of financial instrument (excluding derivatives) held by the Group as at December 31, 2017, using the financial instrument accounting system developed by the Group with applying Korean IFRS 1109.

(in millions of Korean won)	**Classification in accordance with**		**Amount in accordance with**	
Account	**Korean IFRS1039**	**Korean IFRS1109**	**Korean IFRS1039**	**Korean IFRS1109**
Cash and due from banks	Loans and receivables	Measured at amortized cost	₩ 3,142,147	₩ 3,142,342
Loans and receivables	Loans and receivables	Measured at amortized cost	75,282,384	75,170,088
Loans and receivables	Loans and receivables	Recognized at fair value through profit or loss	9,498	20,405
Debt securities	Financial assets held-to-maturity	Measured at amortized cost	6,671,317	6,670,546
Equity securities	Financial assets available-for-sale	Recognized at fair value through other comprehensive income	630,024	166,232
Equity securities	Financial assets available-for-sale	Recognized at fair value through profit or loss	457,108	176,517
Debt securities	Financial assets available-for-sale	Recognized at fair value through other comprehensive income	4,734,875	4,734,575
Debt securities	Financial assets available-for-sale	Recognized at fair value through profit or loss	-	744,379
Debt securities	Financial assets at fair value through profit or loss	Recognized at fair value through profit or loss	1,337,937	1,332,954
Equity securities	Financial assets at fair value through profit or loss	Recognized at fair value through profit or loss	62,163	47,040
Financial instruments excluding derivatives			₩ 92,327,453	₩ 92,205,078

With the implementation of Korean IFRS 1109, as at December 31, 2017, ₩ 20,405 of loans and receivables, which are measured at amortized cost, and ₩ 920,896 of financial assets available-for-sales are classified to financial assets recognized at fair value through profit or loss. These classifications will increase the financial assets recognized at fair value through profit or loss from

1.52% to 2.52% over the total financial assets (excluding derivatives) of ₩ 92,327,453, and may result an extended fluctuation in profit or loss.

(b) Classification and Measurement of Financial Liabilities

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

As at December 31, 2017, the Group does not hold financial liabilities designated at fair value through profit or loss.

(c) Impairment: Financial Assets and Contract Assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under Korean IFRS 1039. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, lease receivables, contract assets, loan commitments and certain financial guarantee contracts.

Under Korean IFRS 1109 'expected loss' model, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognized. The Group will always recognize (at a minimum) 12-month expected credit losses in profit or loss. Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

<table>
<tr><th colspan="2">Stage[1]</th><th>Loss allowance</th></tr>
<tr><td>1</td><td>No significant increase in credit risk after initial recognition[2]</td><td>12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date)</td></tr>
<tr><td>2</td><td>Significant increase in credit risk after initial recognition</td><td rowspan="2">Lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument)</td></tr>
<tr><td>3</td><td>Credit-impaired</td></tr>
</table>

[1] A loss allowance for lifetime expected credit losses is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. It is also required for contract assets or trade receivables that are not, according to Korean IFRS 1115 *Revenue from Contracts with Customers*, considered to contain a significant financing component. Additionally, the Group can elect an accounting policy of recognizing lifetime expected credit losses for all contract assets and/or all trade receivables, including those that contain a significant financing component.

[2] If the financial instrument has low credit risk at the end of the reporting period, the Group may assume that the credit risk has not increased significantly since initial recognition.

Under Korean IFRS 1109, the asset that is credit-impaired at initial recognition would recognize all changes in lifetime expected credit losses since the initial recognition as a loss allowance with any changes recognized in profit or loss.

As at December 31, 2017, the Group owns debt investment carried at amortized cost of ₩ 85,105,346 million (loans and receivables of ₩ 78,434,029 million, financial asset held-to-maturity of ₩ 6,671,317 million), debt investments carried at fair value through other comprehensive income, which are classified as financial assets available-for-sales, of ₩ 4,734,875 million. And, the Group recognized loss allowance of ₩ 860,585 million for these assets.

The following table presents the impact on the loss allowance measured by the Group as at December 31, 2017, using the financial instrument accounting system developed by the Group with applying Korean IFRS 1109.

(in millions of Korean won)	**Loss allowance in accordance with**		
Account	**Korean IFRS 1039 (a)**	**Korean IFRS 1109 (b)**	**Difference (b)-(a)**
Loans and receivables			
Stage 1	₩ 227,332	₩ 268,295	₩ 40,963
Stage 2	195,195	271,075	75,880
Stage 3	403,002	406,581	3,579
Provisions			
Stage 1	23,618	29,730	6,112
Stage 2	5,438	9,984	4,546
Stage 3	6,000	8,528	2,528
Debt securities			
Stage 1	-	1,533	1,533
Stage 2	-	-	-
Stage 3	-	-	-
	₩ 860,585	₩ 995,726	₩ 135,141

[1] Consolidated adjusting entries are not reflected in the above amounts.

The results of the assessment as at December 31, 2017, may change due to additional information that the Group may obtain after the assessment and related decision making.

(d) Hedge Accounting

Hedge accounting mechanics (fair value hedges, cash flow hedges and hedge of net investments in a foreign operations) required by Korean IFRS 1039 remains unchanged in Korean IFRS 1109, however, the new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. Korean IFRS 1109 allows more hedging instruments and hedged items to qualify for hedge accounting, and relaxes the hedge accounting requirement by removing two hedge effectiveness tests that are a prospective test to ensure that the hedging relationship is expected to be highly effective and a quantitative retrospective test (within range of 80-125%) to ensure that the hedging relationship has been highly effective throughout the reporting period.

With implementation of Korean IFRS 1109, volatility in profit or loss may be reduced as some items that were not eligible as hedged items or hedging instruments under Korean IFRS 1039 are now eligible under Korean IFRS 1109.

As at December 31, 2017, the Group applies the hedge accounting to its assets, liabilities, firm commitments and forecast transactions that amount to ₩ 556,612 million (including forecast transactions not recognized in the statement of financial position). With applying the hedge accounting, the Group recognized the fair value changes of fair value hedging instruments for ₩ 6,300 million in profit or loss, and There was no reclassification of fair value changes of cash flow hedging instrument recognized in other comprehensive income to profit or loss during the year. As at December 31, 2017, the changes in fair values of cash flow hedging instruments recognized in accumulated other comprehensive income amount to ₩ 9,270 million.
Furthermore, when the Group first applies Korean IFRS 1109, it may choose as its accounting policy choice to continue to apply all of the hedge accounting requirements of Korean IFRS 1039 instead of the requirements of Korean IFRS 1109.

- Korean IFRS 1115 *Revenue from Contracts with Customers*

Korean IFRS 1115 *Revenue from Contracts with Customers* issued on November 6, 2015 will be effective for annual reporting periods beginning on or after January 1, 2018 with early adoption permitted. This standard replaces Korean IFRS 1018 *Revenue*, Korean IFRS 1011 *Construction Contracts*, Interpretation 2031 *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113 *Customer Loyalty Programs*, Interpretation 2115 *Agreements for the Construction of Real Estate* and Interpretation 2118 *Transfers of assets from customers.*

The Group must apply Korean IFRS 1115 *Revenue from Contracts with Customers* within annual reporting periods beginning on or after January 1, 2018, and will apply the standard retrospectively to prior reporting period presented in accordance with Korean IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* and apply simplified transition method with no restatement for completed contracts and other as at January 1, 2017.

Korean IFRS 1018 and other current revenue standard identify revenue as income that arises in the course of ordinary activities of an entity and provides guidance on a variety of different types of revenue, such as, sale of goods, rendering of services, interest, dividends, royalties and construction contracts. However, the new standard is based on the principle that revenue is recognized when control of a goods or services transfers to a customer so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue from contract with customers can be recognized:

- Identify contracts with customers
- Identify the separate performance obligation

- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognize the revenue as each performance obligation is satisfied.

- Enactment of Korean IFRS 1116 *Leases*

Korean IFRS 1116 *Leases* issued on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This standard will replace Korean IFRS 1017 *Leases*, Interpretation 2104 *Determining whether an Arrangement contains a Lease*, Interpretation 2015 *Operating Leases-Incentives*, and Interpretation 2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

At inception of a contract, the entity shall assess whether the contract is, or contains, a lease. Also, at the date of initial application, the entity shall assess whether the contract is, or contains, a lease in accordance with the standard. However, the entity will not need to reassess all contracts with applying the practical expedient because the entity elected to apply the practical expedient only to contracts entered before the date of initial application.

For a contract that is, or contains, a lease, the entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee may elect not to apply the requirements to short-term lease (a lease term of 12 months or less at the commencement date) and low value assets. In addition, as a practical expedient, the lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

Lessee accounting

A lessee shall apply this standard to its leases either:

- retrospectively to each prior reporting period presented applying Korean IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* (Full retrospective application); or

- retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

The Group has not yet elected the application method.

The Group performed an impact assessment to identify potential financial effects of applying Korean IFRS 1116. The assessment was performed based on available information as at December 31, 2017 to identify effects on 2017 financial statements. The Group is analyzing the effects on the financial statements; however, it is difficult to provide reasonable estimates of financial effects until the analysis is complete.

Lessor accounting

The Group expects the effect on the financial statements applying the new standard will not be significant as accounting for the Group, as a lessor, will not significantly change.

2.3 Consolidation

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

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

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

- potential voting rights held by the Group, other vote holders or other parties;

- rights arising from other contractual arrangements; and

- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

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

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

2.4 Business Combination

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

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

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

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

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

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

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

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

2.5 Investments in Associates and Joint Ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement that exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

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

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

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

When the Group reduces its ownership interest in an associate or a joint venture, but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. In addition, the Group applies Korean IFRS 1105 *Non-current Assets Held for Sale and Discontinued Operations* to a portion of investment in an associate or a joint venture that meets the criteria to be classified as held for sale.

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

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

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

2.6 Goodwill

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

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

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

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

2.7 Foreign Currencies

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

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

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

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

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

2.8 Cash and Cash Equivalents

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

2.9 Financial Assets

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

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

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

(a) Effective interest rate method

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

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

(b) Financial assets at FVTPL

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

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

A financial asset is classified as held for trading if:

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

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

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

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

(c) HTM investments

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

(d) AFS financial assets

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

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

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

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

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

(e) Loans and receivables

Non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market, other than held for trading or designated on initial recognition as financial assets at FVTPL or as AFS financial assets are classified as ‘loans and receivables.’

Loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment. Interest income is recognized by applying the effective interest rate method, except for short-term receivables when the recognition of interest would be immaterial.

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

(f) Impairment of financial assets

Financial assets other than those at FVTPL are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. However, as a result of future events, the expected impairment is recognized only when incurred.

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

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

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

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

① Loans and receivables

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

For financial assets that are not individually significant, the Group assesses whether the objective evidence of impairment exists 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.

i) Allowance for losses on credits by individual assessment

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

ii) Allowance for losses on credits by collective assessment

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

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

② AFS financial assets

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

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

③ HTM financial assets

For HTM financial assets measured at amortized cost, impairment loss is measured by the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate and directly deducted from the carrying amount.

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

(g) Derecognition of financial assets

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

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

On derecognition of a financial asset other than in its entirety (e.g., when the Group retains an option to repurchase part of a transferred asset or retains a residual interest and such a retained interest indicates that the transferor has neither transferred nor retained substantially all the risks and rewards of ownership and has retained control of the transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement and the part it no longer recognizes on the basis of the relative fair value of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part that is no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair value of those parts.

2.10 Financial Liabilities and Equity Instruments

(a) Classification as debt or equity

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

(b) Equity instruments

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

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

(c) Compound instruments

The component parts of compound instruments (convertible bonds) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and equity instrument.

Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is an equity instrument.

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

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

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

(d) Financial liabilities

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

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

(e) Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

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

(f) Other financial liabilities

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

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

(g) Financial guarantee contracts

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

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

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

(h) Derecognition of financial liabilities

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

2.11 Derivative instruments

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

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

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

(a) Embedded derivatives

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

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

(b) Hedge accounting

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

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

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

(c) Fair value hedges

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

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

(d) Cash flow hedges

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

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

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

2.12 Property and Equipment

Property and equipment are stated at cost, less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property and equipment directly attributable to their purchase or construction includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

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

	Useful life (Years)	Depreciation method
Construction	50	Straight line
Leasehold improvements	5	Straight line
Equipment	5	Straight line
Fixtures	5	Straight line
Vehicles	5	Straight line

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

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

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

2.13 Investment Property

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

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

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

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

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

2.14 Leases

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

(a) The Group as lessor

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

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

(b) The Group as lessee

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

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

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

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

2.15 Intangible Assets

(a) Intangible assets acquired separately

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

(b) Internally generated intangible assets — research and development expenditure

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

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

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

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

(c) Intangible assets acquired in a business combination

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

(d) Derecognition of intangible assets

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

2.16 Impairment of Property and Equipment and Intangible Assets Other than Goodwill

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

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

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

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

2.17 Non-current Assets Held for sale

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

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

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

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

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

2.18 Provisions

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

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

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

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

(a) Onerous contracts

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

(b) Restructurings

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

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower one between the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

(c) Contingent liabilities acquired in a business combination

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

2.19 Retirement Benefit Costs and Termination Benefits

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

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

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

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

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

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

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

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

2.20 Revenue and Expense Recognition

(a) Interest income and expense

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

The effective interest rate reconciles the expected future cash in and out through the expected life of financial instruments or, if appropriate, through shorter period and net carrying amount of financial assets or liabilities. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instruments, except for the loss on future credit risk. Also, the effective interest rate calculation includes redemption costs, points (if it is a part of the effective interest rate) that are paid or earned between contracting parties, transaction costs and other premiums and discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument, the Group uses the contractual cash flows over the full contractual term of the financial instrument. Interest on impaired financial assets is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) Commission revenue

① Fees that are a part of the financial instruments' effective yield

Fees that are a part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate. Such fees include compensation for activities, such as evaluating the borrower's financial condition; evaluating and recording guarantees, collateral and other security arrangements; negotiating the terms of the instrument; preparing and processing documents; and closing the transaction, as well as origination fees received on issuing financial liabilities measured at amortized cost. These fees are deferred and recognized as an adjustment to the effective interest rate. However, in case the financial instrument is classified as a financial asset at FVTPL, the relevant fee is recognized as revenue when the instrument is initially recognized.

② Commission from rendering services

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

③ Commission from significant act performed

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

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

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

④ Unearned revenue from point programs (customer loyalty program)

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

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

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

(c) Dividend income

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

2.21 Income Tax Expense

Income tax expense consists of current and deferred taxes.

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

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

(a) Current tax

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

(b) Deferred tax

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

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

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

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

The Group shall offset deferred tax assets and deferred tax liabilities if, and only if, the Group has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities that intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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

(c) Current and deferred taxes for the year

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

2.22 Accounting for Trust Accounts

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

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

2.23 Fair Value

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

2.24 Operating Segments

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

2.25 Approval of Issuance of the Financial Statements

The consolidated financial statements 2017 were approved for issue by the Board of Directors on February 8, 2018 and are subject to change with the approval of shareholders at their Annual General Meeting.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Group to make estimates and assumptions concerning the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Significant accounting estimates and assumptions applied in the preparation of these consolidated financial statements are the same as those that applied to the consolidated financial statements for the year ended December 31, 2016, except for the estimates used to determine income tax expense.

3.1 Significant Accounting Judgment in the Process of Applying Accounting Policies

The items below are important judgments that are different from other items related to estimations (Note 3.2). The judgment is determined in the process of applying accounting policies and is the most important matter to recognize the amounts in the consolidated financial statements.

(a) Impairment of AFS financial assets

As described in Note 2.9 'Financial Assets' of significant accounting policies, the decrease in the fair value of AFS financial assets significantly or continuously below cost represents an objective evidence of the impairment loss. Accordingly, the Group basically regards the decrease as a "significant fall" if the fair value decreases more than 30% of the acquisition cost and "continuous fall" if the fair value of AFS financial assets continuously decreases for more than six months.

(b) Fair value of financial assets

As described in Note 2.23 'Fair value' of significant accounting policies, the Group exercises various methods from general valuation models to advance valuation models, if valuation models are used determine the fair value of financial assets. In such cases, various input variables and assumptions are applied.

3.2 Key Sources of Estimation Uncertainty

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

(a) Fair value of financial instruments

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

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

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

(c) Measurement of defined benefit obligation

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

(d) Impairment of goodwill

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

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

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

4. Financial Risk Management

4.1 General

(a) General risk management policy

The Group is exposed to various financial risks, such as credit risk, liquidity risk, market risk and operational risk, associated with financial instruments. These risks are recognized, measured, controlled and reported in accordance with risk management guidelines established by the Parent Company and each of its subsidiaries.

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

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

(b) Organization of risk management

i) Risk management committee

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

ii) Risk management council

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

iii) Risk management division

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

4.2 Credit Risk

(a) General

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

(b) Risk management framework

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

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

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

(c) Maximum exposure to credit risk

The Group's maximum exposure to credit risk that does not consider value of collateral as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017	2016
Cash and due from banks	₩ 2,127,570	₩ 2,555,439
Financial assets at FVTPL:		
Financial assets held for trading	1,263,838	1,586,545
Financial assets designated at FVTPL:	63,507	2,721
AFS financial assets	4,734,875	5,037,508
HTM financial assets	6,671,317	6,201,445
Loan receivables	73,272,572	71,374,056
Receivables	2,019,310	2,712,954
Derivative assets	79,605	157,203
Guarantees and acceptances	1,229,169	1,356,423
Loan commitments	11,148,925	11,354,898
	₩ 102,610,688	₩ 102,339,192

(d) Credit risk by impairment of loan receivables and receivables as at December 31, 2017 and 2016, are as follows:

	2017						
	Loans in Korean won						
(in millions of Korean won)	Household	Corporates	Public sector	Subtotal	Other loans	Receivables	Total
Assets neither past due nor impaired	₩ 22,523,767	₩ 44,317,728	₩ 1,682,486	₩ 68,523,981	₩ 4,137,213	₩ 2,033,993	₩ 74,695,187
Assets past due but not impaired	120,162	210,623	-	330,785	49,437	-	380,222
Impaired assets	87,769	760,988	1,644	850,401	59,894	3	910,298
	22,731,698	45,289,339	1,684,130	69,705,167	4,246,544	2,033,996	75,985,707
Deferred loan origination fees and costs	73,116	52,733	667	126,516	8,807	-	135,323
Provision for impairment	(70,182)	(648,679)	(8,233)	(727,094)	(87,368)	(5,314)	(819,776)
Present value discounts (leasehold deposits)	-	-	-	-	-	(9,372)	(9,372)
Total	₩ 22,734,632	₩ 44,693,393	₩ 1,676,564	₩ 69,104,589	₩ 4,167,983	₩ 2,019,310	₩ 75,291,882

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

(e) Analysis of credit quality of financial assets

Credit quality is classified based on internal credit grades as follows:

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

i) Credit quality of loans and receivables

Credit quality of loans and receivables neither past due nor impaired as at December 31, 2017 and 2016, is summarized as follows:

(in millions of Korean won)	2017						
	Loans in Korean won						
	Household	Corporates	Public sector	Subtotal	Other loans	Receivables	Total
Grade 1	₩ 1,827,695	₩ 402,244	₩ 322,393	₩ 2,552,332	₩ 404,584	₩ 50,328	₩ 3,007,244
Grade 2	2,870,915	1,090,704	323,712	4,285,331	414,469	-	4,699,800
Grade 3	4,122,267	2,045,408	7,369	6,175,044	357,359	-	6,532,403
Grade 4	5,916,857	4,673,621	144,398	10,734,876	519,464	1	11,254,341
Grade 5	3,853,905	16,749,348	335,835	20,939,088	878,345	4	21,817,437
Grade 6	2,426,264	17,415,122	544,446	20,385,832	1,011,354	-	21,397,186
Grade 7	1,489,284	1,176,059	2,097	2,667,440	272,218	-	2,939,658
Unrated	16,580	765,222	2,236	784,038	279,420	1,983,660	3,047,118
	₩ 22,523,767	₩ 44,317,728	₩ 1,682,486	₩ 68,523,981	₩ 4,137,213	₩ 2,033,993	₩ 74,695,187

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

Details of loans and receivables past due but not impaired as at December 31, 2017 and 2016, are summarized as follows:

(in millions of Korean won)	2017						
	Loans in Korean won						
	Household	**Corporates**	**Public sector**	**Subtotal**	**Other loans**	**Receivables**	**Total**
Less than one month	₩ 83,957	₩ 156,483	₩ -	₩ 240,440	₩ 29,845	₩ -	₩ 270,285
Less than two months	20,541	32,398	-	52,939	8,368	-	61,307
Less than three months	15,664	21,742	-	37,406	11,224	-	48,630
	₩ 120,162	₩ 210,623	₩ -	₩ 330,785	₩ 49,437	₩ -	₩ 380,222

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

ii) Credit quality of securities

Credit quality of securities neither past due nor impaired as at December 31, 2017 and 2016, is as follows:

(in millions of Korean won)	2017						
	AAA	**AA**	**A**	**BBB**	**BB**	**Unrated**	**Total**
Financial assets at FVTPL (excluding bills bought and others)	₩ 711,731	₩ 97,418	₩ 130,459	₩ 70,043	₩ 1,993	₩ 58,086	₩ 1,069,730
AFS financial assets	4,246,488	483,114	5,271	-	-	2	4,734,875
HTM financial assets	6,383,938	279,865	7,513	-	-	1	6,671,317
	₩ 11,342,157	₩ 860,397	₩ 143,243	₩ 70,043	₩ 1,993	₩ 58,089	₩ 12,475,922

(in millions of Korean won)	2017					
	A1	**A2**	**A3**	**B**	**Unrated**	**Total**
Financial assets at FVTPL (bills bought and others)	₩ 620	₩ 157,965	₩ 92,887	₩ -	₩ 6,143	₩ 257,615

(in millions of Korean won)	2016						
	AAA	**AA**	**A**	**BBB**	**BB**	**Unrated**	**Total**
Financial assets at FVTPL (excluding bills bought and others)	₩ 1,072,691	₩ 80,452	₩ 107,193	₩ 18,930	₩ 2,138	₩ 22,496	₩ 1,303,900
AFS financial assets	4,412,831	608,691	15,984	-	-	2	5,037,508
HTM financial assets	5,963,626	229,321	8,498	-	-	-	6,201,445
	₩ 11,449,148	₩ 918,464	₩ 131,675	₩ 18,930	₩ 2,138	₩ 22,498	₩ 12,542,853

(in millions of Korean won)	2016					
	A1	**A2**	**A3**	**B**	**Unrated**	**Total**
Financial assets at FVTPL (bills bought and others)	₩ 22,989	₩ 238,720	₩ 13,571	₩ 8,739	₩ 1,347	₩ 285,366

(f) Allowance for credit loss and bad debts written off

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

The Group estimates impairment losses and recognizes it as profit and loss for the current reporting period if there is objective evidence that the book amounts of loans and receivables are impaired at closing date.

As according to Korean IFRS, impairment loss refers to only incurred loss, and any loss that may incur from future impairment events are not recognized even if they are highly probable to occur. Impairment of loans can be directly subtracted from the book amount of assets or by using allowance for credit loss. The Group estimates the incurred losses that are inherent in financial assets and records them in the consolidated financial statements by deducting book amount of assets as the account of allowance for credit loss.

(g) Loans and receivables by assessment method

Loans and receivables by valuation method as at December 31, 2017 and 2016, are summarized as follows:

	2017								
	Individual assessment			**Collective assessment**			**Total**		
(in millions of Korean won)	**Loans**	**Allowance**	**Allowance rate (%)**	**Loans**	**Allowance**	**Allowance rate (%)**	**Loans**	**Allowance**	**Allowance rate (%)**
Loans in Korean won	₩ 842,383	₩ 322,566	38.29	₩ 68,862,784	₩ 404,528	0.59	₩ 69,705,167	₩ 727,094	1.04
Loans in foreign currencies [1]	7,913	7,443	94.06	1,141,627	9,424	0.83	1,149,540	16,867	1.47
Others	83,669	12,808	15.31	5,047,331	63,007	1.25	5,131,000	75,815	1.48
	₩ 933,965	₩ 342,817	36.71	₩ 75,051,742	₩ 476,959	0.64	₩ 75,985,707	₩ 819,776	1.08

[1] Include offshore loans, interbank loans in foreign currencies and domestic import usance bills

	2016								
	Individual assessment			Collective assessment			Total		
(in millions of Korean won)	Loans	Allowance	Allowance rate (%)	Loans	Allowance	Allowance rate (%)	Loans	Allowance	Allowance rate (%)
Loans in Korean won	₩ 594,874	₩ 197,393	33.18	₩ 66,707,126	₩ 393,771	0.59	₩ 67,302,000	₩ 591,164	0.88
Loans in foreign currencies [1]	10,432	7,179	68.82	1,336,901	11,698	0.88	1,347,333	18,877	1.40
Others	54,869	3,770	6.87	5,941,768	61,653	1.04	5,996,637	65,423	1.09
	₩ 660,175	₩ 208,342	31.56	₩ 73,985,795	₩ 467,122	0.63	₩ 74,645,970	₩ 675,464	0.90

[1] Include offshore loans, interbank loans in foreign currencies and domestic import usance bills

(h) Details of pledged assets and estimated fair value

The fair value of collateral pledged for loans in Korean won as at December 31, 2017 and 2016, is as follows:

(in millions of Korean won)	2017			
	Household	Corporates	Public sector and other	Total
Movables and real estate	₩ 10,127,660	₩ 21,636,920	₩ 350,181	₩ 32,114,761
Securities and bonds	354,464	833,791	16,604	1,204,859
Guarantee	7,030,270	4,421,938	85,259	11,537,467
Others	192,235	224,852	1,166	418,253
	₩ 17,704,629	₩ 27,117,501	₩ 453,210	₩ 45,275,340

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

(i) Concentration analysis of credit risk

The details of loans and receivables by borrower's country as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017		2016	
	Amount	**Ratio (%)**	**Amount**	**Ratio (%)**
The Republic of Korea	₩ 75,466,286	99.32	₩ 74,286,847	99.52
China	121,674	0.16	155,905	0.21
Others	397,747	0.52	203,218	0.27
	₩ 75,985,707	100.00	₩ 74,645,970	100.00

Loans in local currency and foreign currencies by industry as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017				
	Loans in Korean won and foreign currencies	**Financial assets at FVTPL**	**AFS financial assets**	**HTM financial assets**	**Total**
Mining	₩ 43,218	₩ -	₩ 48,914	₩ 30,148	₩ 122,280
Manufacturing	19,199,566	48,537	-	-	19,248,103
Electricity, gas, steam and water service	224,597	28	168,554	366,389	759,568
Construction	1,471,615	381,733	1,378,337	1,346,361	4,578,046
Wholesale and retail	9,021,100	883	178,085	89,997	9,290,065
Transportation	3,669,828	24,385	131,971	210,576	4,036,760
Lodging and restaurant business	2,289,616	31,807	50,316	129,071	2,500,810
Publishing, visual entertainment, broadcasting and information	1,644,259	46,304	78,473	20,063	1,789,099
Financial and insurance business	1,336,419	9,806	607,331	588,827	2,542,383
Real estates and lease business	4,839,490	19,801	1,023,340	2,575,653	8,458,284
Business facility management and business support services	257,298	1,337	-	-	258,635
Public, national defense and social security system	207,659	28,086	882,714	1,148,390	2,266,849
Associations, organizations and household	787,943	-	167,469	160,132	1,115,544
Others	25,862,099	734,638	19,371	5,710	26,621,818
	₩70,854,707	₩ 1,327,345	₩ 4,734,875	₩ 6,671,317	₩83,588,244

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

4.3 Liquidity Risk

(a) General

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

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

(b) Liquidity risk management

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

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

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

The Group's non-derivative financial liabilities as at December 31, 2017 and 2016, are summarized by remaining contractual maturity as follows:

(in millions of Korean won)	2017					
	Less than one month	**1–3 months**	**3–12 months**	**1–5 years**	**More than five years**	**Total**
Financial liabilities [1]:						
Deposits	₩31,573,902	₩10,258,102	₩25,890,538	₩ 2,615,511	₩ 575,472	₩70,913,525
Borrowings	1,677,666	527,454	1,006,403	1,631,183	371,656	5,214,362
Debentures	243,855	687,613	2,089,528	5,242,017	1,084,945	9,347,958
Other financial liabilities [2]	2,226,216	14,189	87,206	150,444	262,627	2,740,682
	₩35,721,639	₩11,487,358	₩29,073,675	₩ 9,639,155	₩ 2,294,700	₩88,216,527
Derivative liabilities:						
Derivatives for hedging	₩ -	₩ 202	₩ 3,974	₩ 25,012	₩ 2,112	₩ 31,300
Derivatives for trading	12,165	16,151	51,140	6,128	-	85,584
	₩ 12,165	₩ 16,151	₩ 51,140	₩ 6,128	₩ 31,300	₩ 116,884

[1] Principal and interest are included in financial liabilities.

[2] Consist of other payables, accrued expenses and leasehold deposits received and others.

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

[1] Principal and interest are included in financial liabilities.

[2] Consist of other payables, accrued expenses and leasehold deposits received and others.

(d)) Marginal residual maturity (payment guarantee, commitments and others)

Guarantees, loan commitments and other credit facilities provided by the Group have maturities. However, if the counterparty requests the payment immediately, the payment must be fulfilled. The off balance sheet items as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017	2016
Guarantees	₩ 1,229,169	₩ 1,356,423
Loan commitments	11,148,925	11,354,898
	₩ 12,378,094	₩ 12,711,321

4.4 Market Risk

(a) General

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

(b) Market risk management

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

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

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

(c) Market risk management for trading activities

a. Definition of trading position

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

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

b. Measurement of market risk occurring at trading position

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

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

c. VaR

① VaR measurement

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

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

② Back testing

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

③ Stress testing

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

i) Busan Bank

The following table shows VaR as at December 31, 2017 and 2016, at 99% confidence level for a one-day holding period, for interest rate risk, equity price risk and foreign exchange rate risk related to trading activities.

(in millions of Korean won)	2017			
	Maximum	**Minimum**	**Average**	**Ending**
Interest rate risk	₩ 191	₩ 55	₩ 96	₩ 98
Equity price risk	120	-	17	1
Foreign exchange rate risk	716	173	226	182
Diversification	(318)	(36)	(72)	(66)
Total VaR	₩ 709	₩ 192	₩ 267	₩ 215

(in millions of Korean won)	2016			
	Maximum	**Minimum**	**Average**	**Ending**
Interest rate risk	₩ 202	₩ 117	₩ 136	₩ 117
Equity price risk	-	-	-	-
Foreign exchange rate risk	343	187	235	240
Diversification	(191)	(75)	(93)	(61)
Total VaR	₩ 354	₩ 229	₩ 278	₩ 296

ii) Kyongnam Bank

The following table shows VaR as at December 31, 2017 and 2016, at 99% confidence level for a one-day holding period, for interest rate risk, equity price risk and foreign exchange rate risk related to trading activities.

(in millions of Korean won)	2017			
	Maximum	**Minimum**	**Average**	**Ending**
Interest rate risk	₩ 107	₩ 55	₩ 64	₩ 31
Equity price risk	228	46	192	267
Foreign exchange rate risk	36	20	20	6
Diversification	(53)	(35)	(38)	(23)
Total VaR	₩ 318	₩ 86	₩ 238	₩ 281

(in millions of Korean won)	2016			
	Maximum	**Minimum**	**Average**	**Ending**
Interest rate risk	₩ 255	₩ 64	₩ 105	₩ 64
Equity price risk	194	39	185	39
Foreign exchange rate risk	33	21	23	21
Diversification	(72)	(29)	(40)	(29)
Total VaR	₩ 410	₩ 95	₩ 273	₩ 95

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

d. Details by risk factors

① Interest rate risk

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

② Equity price risk

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

③ Foreign exchange rate risk

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

(d) Market risk management for non-trading activities

a. Definition of non-trading position

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

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

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

4.5 Operational Risk

(a) General

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

(b) Operational risk management

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

4.6 Capital Management

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

In accordance with financial holding group regulations, the Group must maintain the share capital-common ratio of 5.75%, Tier 1 capital ratio of 7.25% and total capital ratio of 9.25% as at December 31, 2017.

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

The Group's BIS capital ratios as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Share capital - common (A)	₩	6,408,895	₩	6,122,007
Other basic capital (B)		674,003		510,987
Tier 2 capital (C)		1,639,930		1,913,290
Total capital (D)	₩	8,722,828	₩	8,546,284
Credit risk-weighted assets	₩	61,892,421	₩	61,944,205
Market risk-weighted assets		401,182		311,525
Operational risk-weighted assets		4,430,299		4,223,107
Total risk-weighted assets (E)	₩	66,723,902	₩	66,478,837
Share capital - common ratio (A/E)		9.61		9.21
Tier 1 capital ratio ((A+B)/E) (%)		10.62		9.98
Total capital ratio (D/E) (%)		13.07		12.86

5. Operating Segment Information

(a) Segment report and division information

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

Operations by divisions for the years ended December 31, 2017 and 2016, are as follows:

	2017								
(in millions of Korean won)	Busan Bank	Kyongnam Bank	BNK Securities Co., Ltd.	BNK Capital Co., Ltd.	BNK Savings Bank	Others	Total	Adjustment	Consolidated financial statements
Net interest income (expenses)	₩ 1,201,950	₩ 847,460	₩ 10,495	₩ 222,738	₩ 35,840	₩ (30,828)	₩ 2,287,655	₩ (7,034)	₩ 2,280,621
Net commission income	70,857	35,551	24,367	12,757	257	18,038	161,827	(2,114)	159,713
Net gain (loss) on financial assets at FVTPL	(2,105)	5,771	11,529	-	-	-	15,195	(181)	15,014
Net gain (loss) on AFS financial assets	16,001	30,365	(1,127)	16	(2)	-	45,253	(7,028)	38,225
Provision for credit loss and others	(380,161)	(143,512)	(5,457)	(86,994)	(3,298)	-	(619,422)	(44)	(619,466)
General and administrative expenses	(566,749)	(420,599)	(37,369)	(63,513)	(14,928)	(36,825)	(1,139,983)	2,316	(1,137,667)
Other operating income (expenses), net	(61,845)	(66,784)	1,393	(433)	(3,103)	11,007	(119,765)	(22,352)	(142,117)

	2017								
(in millions of Korean won)	**Busan Bank**	**Kyongnam Bank**	**BNK Securities Co., Ltd.**	**BNK Capital Co., Ltd.**	**BNK Savings Bank**	**Others**	**Total**	**Adjustment**	**Consolidated financial statements**
Non-operating income (expenses), net	(16,689)	(12,697)	(851)	(1,791)	612	(3,354)	(34,770)	(1,804)	(36,574)
Profit (loss) before income tax	261,259	275,555	2,980	82,780	15,378	(41,962)	595,990	(38,241)	557,749
Income tax expense	(58,054)	(54,013)	(1,081)	(20,142)	(3,794)	(252)	(137,336)	4,550	(132,786)
Profit (loss) for the year	203,205	221,542	1,899	62,638	11,584	(42,214)	458,654	(33,691)	424,963
Total assets	₩51,232,105	₩36,683,540	₩ 886,119	₩ 4,812,026	₩ 849,837	₩ 5,929,333	₩100,392,960	₩(6,042,983)	₩94,349,977
Total liabilities	₩46,777,012	₩33,574,450	₩ 675,902	₩ 4,201,734	₩ 722,821	₩ 1,250,274	₩ 87,202,193	₩ (508,236)	₩86,693,957

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

(b) Information on financial services and geographical areas

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

6. Financial Assets and Financial Liabilities

(a) The carrying amount of financial instruments by category

All financial instruments (financial assets and financial liabilities) are measured at fair value or at amortized cost in accordance with going-concern assumptions. The carrying amounts of financial assets and financial liabilities by each category as at December 31, 2017 and 2016, are as follows:

	2017								
	Financial assets at FVTPL								
(in millions of Korean won)	Financial assets held for trading	Financial assets designated as at FVTPL	Derivatives for trading	Derivatives for hedging	Loans and receivables	AFS financial assets	HTM financial assets	Amortized financial liabilities	Total
Financial assets:									
Cash and due from bank	₩ -	₩ -	₩ -	₩ -	₩3,142,147	₩ -	₩ -	₩ -	₩3,142,147
Financial assets at FVTPL	1,336,593	63,507	-	-	-	-	-	-	1,400,100
AFS financial assets	-	-	-	-	-	5,822,006	-	-	5,822,006
HTM financial assets	-	-	-	-	-	-	6,671,317	-	6,671,317
Loans and receivables	-	-	-	-	75,291,882	-	-	-	75,291,882
Derivative assets	-	-	79,523	82	-	-	-	-	79,605
	₩1,336,593	₩ 63,507	₩ 79,523	₩ 82	₩78,434,029	₩5,822,006	₩6,671,317	₩ -	₩92,407,057
Financial liabilities:									
Deposits	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩69,824,592	₩69,824,592
Borrowings	-	-	-	-	-	-	-	5,116,421	5,116,421
Debentures	-	-	-	-	-	-	-	8,807,408	8,807,408
Derivative liabilities	-	-	84,523	31,300	-	-	-	-	115,823
Other liabilities	-	-	-	-	-	-	-	2,557,644	2,557,644
	₩ -	₩ -	₩ 84,523	₩ 31,300	₩ -	₩ -	₩ -	₩86,306,065	₩86,421,888

	2016								
	Financial assets at FVTPL								
(in millions of Korean won)	Financial assets held for trading	Financial assets designated as at FVTPL	Derivatives for trading	Derivatives for hedging	Loans and receivables	AFS financial assets	HTM financial assets	Amortized financial liabilities	Total
Financial assets:									
Cash and due from bank	₩ -	₩ -	₩ -	₩ -	₩3,414,051	₩ -	₩ -	₩ -	₩3,414,051
Financial assets at FVTPL	1,665,846	2,721	-	-	-	-	-	-	1,668,567
AFS financial assets	-	-	-	-	-	6,139,928	-	-	6,139,928
HTM financial assets	-	-	-	-	-	-	6,201,445	-	6,201,445
Loans and receivables	-	-	-	-	74,087,010	-	-	-	74,087,010
Derivative assets	-	-	157,089	114	-	-	-	-	157,203
	₩1,665,846	₩ 2,721	₩ 157,089	₩ 114	₩77,501,061	₩6,139,928	₩6,201,445	₩ -	₩91,668,204
Financial liabilities:									
Deposits	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩67,604,391	₩67,604,391
Borrowings	-	-	-	-	-	-	-	6,332,708	6,332,708
Debentures	-	-	-	-	-	-	-	8,781,598	8,781,598
Derivative liabilities	-	-	129,040	27,674	-	-	-	-	156,714
Other liabilities	-	-	-	-	-	-	-	3,176,850	3,176,850
	₩ -	₩ -	₩ 129,040	₩ 27,674	₩ -	₩ -	₩ -	₩85,895,547	₩86,052,261

(b) Fair value assessment method and assumptions

Fair value assessment method and assumptions are as follows:

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

(c) Fair Value Hierarchy Classifications of the Financial Instruments that are Subsequently Measured at Fair Value

Fair value hierarchy classifications of the financial instruments that are subsequently measured at fair value as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017				
	Book amount	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets:					
Financial assets at FVTPL:					
Financial assets held for trading	₩ 1,336,592	₩ 1,336,592	₩ 45,867	₩ 1,290,725	₩ -
Designated as at FVTPL	63,507	63,507	-	1,680	61,828
AFS financial assets	5,807,316	5,807,316	1,305,804	3,696,982	804,530
Derivative assets	79,605	79,605	-	79,529	76
	₩ 7,287,021	₩ 7,287,021	₩ 1,351,671	₩ 5,068,916	₩ 866,434
Financial liabilities:					
Derivative liabilities	₩ 115,823	₩ 115,823	₩ -	₩ 105,894	₩ 9,929

(in millions of Korean won)	2016				
	Book amount	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets:					
Financial assets at FVTPL:					
Financial assets held for trading	₩ 1,665,846	₩ 1,665,846	₩ 496,120	₩ 1,169,726	₩ -
Designated as at FVTPL	2,721	2,721	-	1,692	1,029
AFS financial assets	6,119,536	6,119,536	1,052,772	4,277,699	789,065
Derivative assets	157,203	157,203	184	156,558	461
	₩ 7,945,306	₩ 7,945,306	₩ 1,549,076	₩ 5,605,675	₩ 790,555
Financial liabilities:					
Derivative liabilities	₩ 156,714	₩ 156,714	₩ 106	₩ 156,608	₩ -

The valuation techniques and input variables of Level 2 financial instruments, subsequently measured at fair value, as at December 31, 2017 and December 31, 2016, are as follows:

	2017			
(in millions of Korean won)		**Fair value**	**Valuation techniques**	**Input variables**
Financial assets:				
Financial assets at FVTPL				
Debt securities	₩	1,254,528	DCF Model	Discount rate
Beneficiary certificates		37,877	Net Asset Value Method	Value of underlying assets
AFS financial assets				
Debt securities		3,430,385	DCF Model	Discount rate
Beneficiary certificates		266,597	Net Asset Value Method	Value of underlying assets
Derivative assets		79,529	DCF Model	Discount rate
Financial liabilities:				
Derivative liabilities	₩	105,894	DCF Model	Discount rate

	2016			
(in millions of Korean won)		**Fair value**	**Valuation techniques**	**Input variables**
Financial assets:				
Financial assets at FVTPL				
Debt securities	₩	1,143,163	DCF Model	Discount rate
Beneficiary certificates		26,563	Net Asset Value Method	Value of underlying assets
AFS financial assets				
Debt securities		3,981,922	DCF Model	Discount rate
Beneficiary certificates		295,777	Net Asset Value Method	Value of underlying assets
Derivative assets		156,558	DCF Model	Discount rate
Financial liabilities:				
Derivative liabilities	₩	156,608	DCF Model	Discount rate

The valuation techniques, input variables and range of significant unobservable input variables of Level 3 financial instruments, which are subsequently measured at fair value, as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	Fair value 2017	Fair value 2016	Valuation techniques	Range of significant unobservable inputs	Relationship between significant unobservable inputs and fair value
Financial assets designated as at FVTPL	₩ 61,827	₩ 1,029	Net Asset Value Method	Value of underlying assets	Fair value increases (decreases) when value of underlying assets increases (decreases)
AFS financial assets (equity securities)	436,563	454,591	Free Cash Flow Equity Model, Dividend Discount Model	Discount rate: 2.35%-21.65% Growth rate: 0%-2.50% Liquidation value: 0.00%	Fair value increases (decreases) when discount rate decreases (increases), growth rate increases (decreases) or liquidation value increases (decreases)
AFS financial assets (beneficiary certificates)	367,967	334,474	Net Asset Value Method	Value of underlying assets	Fair value increases (decreases) when value of underlying assets increases (decreases)
Derivative assets	76	461	Binomial Trees	Volatility: 27.87% Discount rate: 1.27%-1.56%	Fair value increases (decreases) when volatility increases (decreases) or discount rate decreases (increases)
Derivative liabilities	9,929	-	Binomial Trees	Volatility: 27.87% Discount rate: 1.27%-1.56%	Fair value increases (decreases) when volatility increases (decreases) or discount rate decreases (increases)

The following table shows the sensitivity analysis disclosing the effects of changes in significant unobservable input concerning measurement of Level 3 financial instrument have on profit or loss and other comprehensive income for the years ended December 31, 2017 and 2016:

(in millions of Korean won)	2017			
	Profit (loss) for the year		Other comprehensive income	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Financial assets				
AFS financial assets [1]	₩ -	₩ (8)	₩ 17,355	₩ (9,129)
Derivative assets [2]	29,462	(63,425)	-	-
Financial liabilities				
Derivative liabilities	29,421	(63,401)	-	-
	₩ 58,883	₩ (126,834)	₩ 17,355	₩ (9,129)

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

[2] Fair value changes of equity derivatives are calculated by increasing or decreasing share price or historical fluctuation rate of share price by 10%. The share price and historical fluctuation rate of share price are major unobservable inputs.

(in millions of Korean won)	2016			
	Profit (loss) for the year		Other comprehensive income	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Financial assets				
AFS financial assets [1]	₩ -	₩ (1)	₩ 15,345	₩ (8,082)
Derivative assets [2]	512	(320)	-	-
	₩ 512	₩ (321)	₩ 15,345	₩ (8,082)

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

[2] Fair value changes of equity derivatives are calculated by increasing or decreasing share price or historical fluctuation rate of share price by 10%. The share price and historical fluctuation rate of share price are major unobservable inputs.

Changes in Level 3 financial instruments subsequently measured at fair value for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017			
	Financial assets designated at FVTPL	AFS financial assets	Derivative assets	Derivative liabilities
Beginning balance	₩ 1,029	₩ 789,065	₩ 461	₩ -
Total profit or loss				
Amount recognized in profit or loss[1]	1,098	6,576	(31)	8,943
Amount recognized in other comprehensive income	-	(2,196)	-	-
Purchases	-	73,094	-	-
Sales	-	(64,402)	-	-
Other changes				
Transfer into level 3	-	2,437	(354)	986
Transfer into other levels[2]	-	(44)	-	-
Reclassification	59,700	-	-	-
Ending balance	₩ 61,827	₩ 804,530	₩ 76	₩ 9,929

(in millions of Korean won)	2016					
	Financial assets designated at FVTPL		**AFS financial assets**		**Derivative assets**	
Beginning balance	₩	-	₩	727,372	₩	23
Total profit or loss						
Amount recognized in profit or loss		29		(3,683)		(1,166)
Amount recognized in other comprehensive income		-		20,440		-
Purchases		-		80,257		1,604
Sales		-		(35,321)		-
Other changes						
Transfer into level 3		1,000		-		-
Transfer into other levels		-		-		-
Ending balance	₩	1,029	₩	789,065	₩	461

[1] In relation to changes in Level 3 of the fair value hierarchy, total gains or losses recognized in profit or loss for the year, and total gains or losses that is attributable to the change in unrealized gains or losses relating to assets and liabilities held at the end of the year, are presented in the separate line items in the consolidated statement of comprehensive income as follows::

(in millions of Korean won)	**Financial assets designated at FVTPL**				**AFS financial assets**				**Derivatives**			
	Gain or loss on sales		**Impairment loss**		**Gain or loss on sales**		**Impairment loss**		**Loss on valuation**		**Total**	
Profit for the year	₩	614	₩	-	₩	13,436	₩	-	₩	-	₩	13,436
Change in unrealized loss		-		484		-		(6,860)		(8,974)		(15,834)
	₩	614	₩	484	₩	13,436	₩	(6,860)	₩	(8,974)	₩	(2,398)

[2] It moved from Level 3 to Level 1 due to listing of equity securities during the year ended December 31, 2016.

At the end of the reporting period, market prices for certain financial instruments are not quoted in an active market hence disabling reliable measurement of fair value. Therefore, financial instruments accounted for using cost basis are as follows:

(in millions of Korean won)	**Type**	**2017**		**2016**	
AFS financial assets	Unlisted equity securities	₩	14,691	₩	20,392

(d) Fair Value Hierarchy Classifications of the Financial Instruments that are not Subsequently Measured at Fair Value

Fair value hierarchy classifications of the financial instruments that are subsequently not measured at fair value as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017				
	Book amount	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets:					
Loans and receivables	₩ 75,291,882	₩ 74,835,634	₩ -	₩ -	₩ 74,835,634
HTM financial assets	6,671,317	6,611,223	58,172	6,553,051	-
	₩ 81,963,199	₩ 81,446,857	₩ 58,172	₩ 6,553,051	₩ 74,835,634
Financial liabilities:					
Deposit liabilities	₩ 69,824,592	₩ 70,124,191	₩ -	₩ 29,464,121	₩ 40,660,070
Borrowings	5,116,421	5,112,838	463,890	4,639,100	9,848
Debentures	8,807,408	8,837,866	-	8,837,866	-
	₩ 83,748,421	₩ 84,074,895	₩ 463,890	₩ 42,941,087	₩ 40,669,918

(in millions of Korean won)	2016				
	Book amount	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets:					
Loans and receivables	₩ 74,087,010	₩ 74,535,610	₩ -	₩ -	₩ 74,535,610
HTM financial assets	6,201,445	6,263,809	51,771	6,212,038	-
	₩ 80,288,455	₩ 80,799,419	₩ 51,771	₩ 6,212,038	₩ 74,535,610
Financial liabilities:					
Deposit liabilities	₩ 67,604,391	₩ 67,616,876	₩ -	₩ 28,185,343	₩ 39,431,533
Borrowings	6,332,708	6,358,530	219,182	6,030,375	108,973
Debentures	8,781,598	8,885,854	-	8,885,854	-
	₩ 82,718,697	₩ 82,861,260	₩ 219,182	₩ 43,101,572	₩ 39,540,506

The valuation techniques and input variables of Level 2 financial instruments, subsequently not measured at fair value as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017		
	Fair value	**Valuation techniques**	**Input variables**
Financial assets:			
HTM financial assets:			
Debt securities	₩ 6,553,051	DCF Model	Discount rate
Financial liabilities:			
Deposit liabilities	₩ 29,464,121	DCF Model	Discount rate
Borrowings	4,639,100	DCF Model	Discount rate
Debentures	8,837,866	DCF Model	Discount rate

(in millions of Korean won)	2016		
	Fair value	**Valuation techniques**	**Input variables**
Financial assets:			
HTM financial assets:			
Debt securities	₩ 6,212,038	DCF Model	Discount rate
Financial liabilities:			
Deposit liabilities	₩ 28,185,343	DCF Model	Discount rate
Borrowings	6,030,375	DCF Model	Discount rate
Debentures	8,885,854	DCF Model	Discount rate

The valuation techniques and input variables of Level 3 financial instruments, subsequently not measured at fair value as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	Fair value		**Valuation techniques**	**Input variables**
	2017	**2016**		
Financial assets:				
Loans and receivables	₩ 74,835,634	₩ 74,535,610	DCF Model	Discount rate
Financial liabilities:				
Deposit liabilities	₩ 40,660,070	₩ 39,431,533	DCF Model	Discount rate
Borrowings	9,848	108,973	DCF Model	Discount rate

(e) Gains and Losses on Valuation at Transaction Date

In the case that the Group measures the fair value of derivative financial instruments with unobservable inputs, the Group recognizes the fair value of the instrument at the transaction price if the fair value at initial measurement is different from the transaction price. The difference between the fair value at initial measurement and the transaction price is deferred and recognized as below.

① Amortized using a straight-line method until the maturity of the instrument.
② When inputs of the valuation techniques become observable in markets, the remaining deferred difference is immediately recognized as gain or loss.

The differences and the changes in deferred gains or losses arising from remeasurement for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017				
	Beginning balance	**New transactions**	**Amortization**	**Settlement**	**Ending balance**
Deferred losses on valuation of stock options purchased	₩ 12	₩ -	₩ (1)	₩ -	₩ 11

(in millions of Korean won)	2016				
	Beginning balance	**New transactions**	**Amortization**	**Settlement**	**Ending balance**
Deferred losses on valuation of stock options purchased	₩ 14	₩ -	₩ (2)	₩ -	₩ 12

The Group used historical volatility rather than implied volatility observed in the market when assessing fair value of assets for stock options purchased and liabilities for stock options sold. Accordingly, day 1 profit, which is the difference between fair value measured at the acquisition date and the transaction price, is not recognized as gain or loss for the year but deferred.

(f) Transfer of Financial Assets

The Group holds securities sold under repurchase and securities lending arrangements, and such transactions have resulted in transfer of financial assets. However, they have been recorded in the financial statements since the assets did not meet the removal criteria. In case of securities sold under repurchase agreements, the Group sells the assets to another party with a commitment to buy the assets back at a specified price. Loaned securities will be returned at the end of security lending agreement; hence, the Group retains substantially all the risks and rewards of ownership of the financial assets.

Details of book amounts of transferred assets and relevant liabilities at the reporting date are as follows:

(in millions of Korean won)	2017		2016	
	Book amount of transferred assets	**Book amount of related liabilities**	**Book amount of transferred assets**	**Book amount of related liabilities**
Securities sold under repurchase agreement	₩ 1,289,308	₩ (1,108,219)	₩ 1,412,468	₩ (1,006,321)
Loaned securities	198,028	-	317,558	-
	₩ 1,487,336	₩ (1,108,219)	₩ 1,730,026	₩ (1,006,321)

(g) Offsetting financial instruments:

Details of financial instruments that are set off and subject to an enforceable master netting arrangement or similar agreement as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017					
				Non-offsetting amount		
	Gross amounts of recognized financial assets	**Gross amounts of recognized financial liabilities to be set off**	**Net amounts of financial assets presented in the consolidated statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Derivatives assets	₩ 79,569	₩ -	₩ 79,569	₩ 772,741	₩ -	₩ 63,307
Receivable spot exchanges	756,479	-	756,479			
Bonds purchased under resale agreement	470,000	-	470,000	470,000	-	-
Domestic exchange uncollected	1,910,130	1,460,395	449,735	-	-	449,735
Securities-related receivable	1,050	-	1,050	688	-	362
	₩ 3,217,228	₩ 1,460,395	₩ 1,756,833	₩ 1,243,429	₩ -	₩ 513,404

(in millions of Korean won)	2017					
				Non-offsetting amount		
	Gross amounts of recognized financial liabilities	**Gross amounts of recognized financial assets to be set off**	**Net amounts of financial liabilities presented in the consolidated statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Derivatives liabilities	₩ 115,823	₩ -	₩ 115,823	₩ 781,897	₩ 2,900	₩ 49,468
Payable spot exchanges	718,442	-	718,442			
Bonds sold under repurchase agreement	1,108,219	-	1,108,219	1,108,219	-	-
Securities sold	14,832	-	14,832	14,832	-	-
Domestic currency exchange payables	1,587,420	1,460,395	127,026	-	-	127,026
Securities-related payables	688	-	688	688	-	-
	₩ 3,545,424	₩ 1,460,395	₩ 2,085,030	₩ 1,905,636	₩ 2,900	₩ 176,494

(in millions of Korean won)	2016											
	Gross amounts of recognized financial assets		Gross amounts of recognized financial liabilities to be set off		Net amounts of financial assets presented in the consolidated statement of financial position		Non-offsetting amount				Net amount	
							Financial instruments		Cash collateral received			
Derivatives assets	₩	157,203	₩	-	₩	157,203	₩	1,360,813	₩	-	₩	409,671
Receivable spot exchanges		1,613,281		-		1,613,280						
Bonds purchased under resale agreement		412,900		-		412,900		412,900		-		-
Domestic exchange uncollected		1,936,427		1,610,574		325,853		-		-		325,853
Securities-related receivable		2,214		445		1,769		-		-		1,769
	₩	4,122,025	₩	1,611,019	₩	2,511,005	₩	1,773,713	₩	-	₩	737,293

(in millions of Korean won)	2016											
	Gross amounts of recognized financial liabilities		Gross amounts of recognized financial assets to be set off		Net amounts of financial liabilities presented in the consolidated statement of financial position		Non-offsetting amount				Net amount	
							Financial instruments		Cash collateral received			
Derivatives liabilities	₩	156,714	₩	-	₩	156,714	₩	1,384,587	₩	-	₩	344,074
Payable spot exchanges		1,571,946		-		1,571,946						
Bonds sold under repurchase agreement		1,006,321		-		1,006,321		1,006,321		-		-
Securities sold		219,182		-		219,182		213,024		6,158		-
Domestic currency exchange payables		1,618,340		1,610,574		7,766		-		-		7,766
Securities-related payables		3,052		445		2,607		-		-		2,607
	₩	4,575,555	₩	1,611,019	₩	2,964,536	₩	2,603,932	₩	6,158	₩	354,447

7. Cash and Due from Banks

Cash and due from banks as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Cash and cash equivalents:				
Cash	₩	636,164	₩	524,483
Foreign currencies		79,645		90,872
Time deposits and others		71,530		61,531
Other deposits		50,824		14,808
Deposits in foreign currencies		176,414		166,918
		1,014,577		858,612
Due from banks[1]:				
Due from banks in local currency		2,011,612		2,445,597
Due from banks in foreign currencies		115,958		109,842
		2,127,570		2,555,439
	₩	3,142,147	₩	3,414,051

[1] The maturity is more than three months.

Due from banks in local currency and foreign currencies as at December 31, 2017 and 2016, consists of the following:

(in millions of Korean won)	Financial institution		2017		2016
Due from banks in local currency:					
Due from domestic banks	The Bank of Korea (BOK)	₩	1,805,688	₩	2,243,283
Others	Woori bank and others		205,924		202,314
			2,011,612		2,445,597
Due from banks in foreign currencies:					
Due from domestic banks	The BOK		75,671		68,912
Offshore due from banks	Bank of China		20,717		26,187
Others	The People's Bank of China and others		19,570		14,743
			115,958		109,842
		₩	2,127,570	₩	2,555,439

Restricted cash and due from banks as at December 31, 2017 and 2016, consist of the following:

(in millions of Korean won)	**Financial institution**	**2017**	**2016**	**Reason for restriction**
Cash and cash equivalents:				
Other due from banks in Korean won	KSFC and KSD[1]	₩ -	₩ 8,000	Deposits from clients
Due from banks:				
Due from banks in Korean won	The BOK	1,805,687	2,243,282	The BOK Act
	KRX[2] and others	33,713	22,836	Consignment transaction deposits
	Korea Federation of Savings Banks	77,170	95,790	Reserve deposits and others
Due from banks in foreign currencies	The BOK	75,671	68,912	Reserve deposits
	The People's Bank of China and others	31,490	14,747	Reserve deposits and others
		2,023,731	2,445,567	
		₩ 2,023,731	₩ 2,453,567	

[1] Korea Securities Finance Corporation ("KSFC") and Korea Securities Depository ("KSD")

[2] Korea Exchange ("KRX")

8. Financial Assets at FVTPL

Financial assets at FVTPL as at December 31, 2017 and 2016, consist of the following:

(in millions of Korean won)	**2017**	**2016**
Financial assets held for trading		
Equity securities	₩ 24,193	₩ 13,701
Government and public bonds	63,469	514,662
Finance bonds	310,170	272,231
Corporate bonds in Korean won	657,726	543,021
Beneficiary certificates	37,971	26,563
Others	243,064	295,668
	₩ 1,336,593	₩ 1,665,846
Financial assets designated at FVTPL		
Debt securities	₩ 63,507	₩ 2,721
	₩ 1,400,100	₩ 1,668,567

9. AFS Financial Assets

AFS financial assets as at December 31, 2017 and 2016, consist of the following:

(in millions of Korean won)		**2017**		**2016**
Equity securities				
Marketable equity securities	₩	1,314	₩	3,305
Non-marketable equity securities		389,240		407,706
Equity investments		62,014		55,293
		452,568		466,304
Debt securities				
Government and public bonds		1,309,778		947,293
Finance bonds		804,131		936,615
Corporate bonds		2,442,264		2,875,300
Loaned securities		178,702		278,300
		4,734,875		5,037,508
Beneficiary certificates and others				
Beneficiary certificates		483,061		511,169
Others		151,502		124,947
		634,563		636,116
	₩	5,822,006	₩	6,139,928

10. HTM Financial Assets

The HTM financial assets by type as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		**2017**		**2016**
Debt securities				
Government and public bonds	₩	3,187,344	₩	2,892,932
Finance bonds		368,348		418,302
Corporate bonds		3,096,299		2,850,953
Loaned securities		19,326		39,258
	₩	6,671,317	₩	6,201,445

11. Assets Provided as Collateral

The investments in financial assets provided as collaterals as December 31, 2017 and 2016, consist of the following:

(in millions of Korean won)	Provided to	Face value 2017	Face value 2016	Reason
Financial assets at FVTPL	KSD	₩ 491,015	₩ 438,144	Sold under repurchase agreements
	KSFC	5,628	219,182	Lending transaction
	KRX	1,999	10,026	Margin for futures and others
	Futures Companies and others	18,989	-	Margin for futures and others
AFS financial assets	The BOK	434,855	488,707	Borrowing collateral and overdraft and settlement
	KSD	1,002	1,074	Common fund for damages and others
	KSD	169,586	101,299	Sold under repurchase agreements
	BOA and others	21,769	23,894	Collateral for Credit Support Annex
	Nomura Finance Investment and others	57,934	36,906	Sold under repurchase agreements
	Sumitomo Mitsui Banking Corporation and others	45,534	74,609	Foreign borrowings and others
HTM financial assets	KRX	1,599	1,456	CCP, settlement agreements and others
	The BOK	1,250,304	1,394,104	Borrowing collateral and overdraft and settlement
	KSD	530,856	701,537	Sold under repurchase agreements
	Nomura Finance Investment and others	39,917	110,588	Sold under repurchase agreements
	Standard Chartered Bank Korea Ltd. and others	1,479	1,000	Collateral for Credit Support Annex, securities borrowings and others
	Futures Companies and others	50,005	76,252	Margin for futures and others
		₩ 3,122,471	₩ 3,678,778	

12. Loans and Receivables

Loans and receivables as at December 31, 2017 and 2016, consist of the following:

(in millions of Korean won)		**2017**		**2016**
Loan receivables:				
Loans in Korean won				
Corporates	₩	45,289,339	₩	44,776,446
Household		22,731,698		20,715,725
Public sector and others		1,469,797		1,559,786
Interbank loans		214,333		250,043
		69,705,167		67,302,000
Loans in foreign currencies		1,149,540		1,407,758
Call loans		240,322		214,766
Bills bought in local currency		10,014		21,870
Bills bought in foreign currencies		256,417		328,401
Advances for customers		6,522		6,653
Credit card receivables		917,755		867,751
Bonds purchased under repurchase agreement		470,000		412,900
Privately placed bonds		36,819		37,881
Finance lease receivables		425,282		428,643
Installment financing receivables		733,873		890,133
		73,951,711		71,918,756
Provision for impairment of loan receivables [1]		(814,462)		(670,569)
Deferred loan origination fees		(18,784)		(33,191)
Deferred loan origination costs		154,107		159,060
	₩	73,272,572	₩	71,374,056
Receivables:				
Suspense payments	₩	2,664	₩	2,123
Non-trade receivable		850,273		1,659,406
Domestic exchange settlement debits		449,735		325,853
Guarantee deposits provided		335,363		332,629
Accrued income		393,571		403,444
Deposits under regulation		1,717		1,322
Bills unsettled		540		1,915
Other		133		522
		2,033,996		2,727,214
Provision for impairment of receivables		(5,314)		(4,895)
Present value discounts (leasehold deposits provided)		(9,372)		(9,365)
		2,019,310		2,712,954
Loans and receivables	₩	75,291,882	₩	74,087,010

[1] Present value discounts of ₩3,573 million and ₩5,579 million are included as at December 31, 2017 and 2016, respectively.

The changes in deferred loan origination fees and costs for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017			
	Beginning balance	**Increase**	**Decrease**	**Ending balance**
Deferred loan origination fees	₩ (33,191)	₩ (8,541)	₩ 22,948	₩ (18,784)
Deferred loan origination costs	159,060	80,584	(85,537)	154,107
	₩ 125,869	₩ 72,043	₩ (62,589)	₩ 135,323

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

13. Provision for Impairment

Changes in provision for impairment of loans and receivables for years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017				
	Loans in Korean won	**Loans in foreign currencies**	**Credit card receivable**	**Others**	**Total**
Beginning balance	₩ 591,277	₩ 17,912	₩ 32,911	₩ 33,364	₩ 675,464
Written off during the year as uncollectible	(411,867)	(2,283)	(36,771)	(27,159)	(478,080)
Decrease in provision due to sales of loans	(49,045)	(87)	(257)	(216)	(49,605)
Collection of previously written off loans	115,679	2,835	7,498	18,369	144,381
Exchange differences	-	(309)	(1)	(38)	(348)
Other	(16,847)	(8)	(14)	(1,429)	(18,298)
	229,197	18,060	3,366	22,891	273,514
Additional provision for impaired receivables during the year	502,343	(2,155)	35,518	10,556	546,262
Ending balance	₩ 731,540	₩ 15,905	₩ 38,884	₩ 33,447	₩ 819,776

(in millions of Korean won)	2016				
	Loans in Korean won	**Loans in foreign currencies**	**Credit card receivable**	**Others**	**Total**
Beginning balance	₩ 617,571	₩ 29,647	₩ 24,265	₩ 42,077	₩ 713,560
Written off during the year as uncollectible	(319,373)	(58,217)	(27,120)	(71,859)	(476,569)
Decrease in provision due to sales of loans	(70,512)	(226)	(228)	(5,944)	(76,910)
Collection of previously written off loans	85,834	1,783	7,343	8,272	103,232
Exchange differences	-	194	-	-	194
Other	(10,530)	(1,020)	(1)	4,922	(6,629)
	302,990	(27,839)	4,259	(22,532)	256,878
Additional provision for impaired receivables during the year	288,287	45,751	28,652	55,896	418,586
Ending balance	₩ 591,277	₩ 17,912	₩ 32,911	₩ 33,364	₩ 675,464

The percentage of provision for impairment of loans and receivables as at December 31, 2017 and 2016, is as follows:

(in millions of Korean won)	**2017**	**2016**
Loans and receivables	₩ 75,985,707	₩ 74,645,970
Provision for impairment	819,776	675,464
Percentage of provision for impairment (%)	1.08	0.90

14. Financial Lease Receivables

Financial lease receivables included in loan receivables as at December 31, 2017 and 2016, consist of the following:

(in millions of Korean won)	2017	2016
Lease receivables	₩ 425,282	₩ 428,643
Provision for impairment	(11,420)	(12,434)
Deferred origination fees	(1,082)	(727)
Deferred origination costs	1,004	1,666
	₩ 413,784	₩ 417,148

The total investment of finance leases and present value of minimum lease payments as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017		2016	
	Total investment of finance leases	Present value of minimum lease payments	Total investment of finance leases	Present value of minimum lease payments
One year or less	₩ 207,106	₩ 195,266	₩ 223,538	₩ 211,404
1-5 years	245,581	230,016	231,210	217,239
	₩ 452,687	₩ 425,282	₩ 454,748	₩ 428,643

The difference between net investment in finance leases and total investment as at December 31, 2017 and 2016, is as follows:

(in millions of Korean won)	2017	2016
Total investment in leases	₩ 452,687	₩ 454,748
Net investment in finance leases		
Present value of minimum lease payments	425,282	428,643
Unrealized interest	₩ 27,405	₩ 26,105

15. Derivative Instruments and Hedge Accounting

The notional amounts outstanding for derivative contracts as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017			2016		
	Trading	**Hedging**	**Total**	**Trading**	**Hedging**	**Total**
Currency:						
Currency forwards[1]	₩4,053,622	₩ -	₩4,053,622	₩6,818,658	₩ -	₩6,818,658
Long currency swaps	32,892	-	32,892	173,782	-	173,782
Short currency swaps	33,535	-	33,535	168,616	-	168,616
Long currency futures[2]	315,109	-	315,109	280,855	-	280,855
Short currency futures[2]	3,653	-	3,653	43,506	-	43,506
Long currency options	595,509	-	595,509	617,919	-	617,919
Short currency options	595,509	-	595,509	617,919	-	617,919
	5,629,829	-	5,629,829	8,721,255	-	8,721,255
Interest rate:						
Long interest rate swaps[1]	628,852	267,851	896,703	47,600	402,125	449,725
Short interest rate swaps[1]	466,135	-	466,135	155,756	-	155,756
Long interest rate futures	10,789	-	10,789	-	-	-
Short interest rate futures	14,885	-	14,885	130,726	-	130,726
	1,120,661	267,851	1,388,512	334,082	402,125	736,207
Stock:						
Stock futures purchased	-	-	-	1,557	-	1,557
Stock futures sold	217	-	217	-	-	-
Stock options purchased	9,498	-	9,498	169,342	-	169,342
Stock options sold	-	-	-	598,283	-	598,283
	9,715	-	9,715	769,182	-	769,182
	₩6,760,205	₩ 267,851	₩7,028,056	₩9,824,519	₩ 402,125	₩10,226,644

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

[2] Daily settlement of futures transactions is reflected in due from banks.

The valuation of derivatives for trading as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017			
	Valuation gain	**Valuation loss**	**Assets**	**Liabilities**
Currency:				
Currency forwards	₩ 68,472	₩ 70,822	₩ 74,274	₩ 78,235
Currency swaps	4,178	4,237	3,191	3,291
Currency options	881	420	1,704	1,714
	73,531	75,479	79,169	83,240
Interest rate:				
Interest rate forwards	28	4	-	-
Interest rate swaps	166	1,632	277	1,283
	194	1,636	277	1,283
Stock:				
Stock options	-	383	65	-
Deferred gain on valuation of derivatives	-	2	12	-
	-	385	77	-
	₩ 73,725	₩ 77,500	₩ 79,523	₩ 84,523

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

Fair value hedge

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

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

The interest rate swap, the interest rate forwards, the interest rate options and others offset changes in the fair value of the hedged items resulting from the fluctuation in market interest rate. In addition, the Group utilizes derivatives related to foreign currency in order to hedge changes in the fair value of hedged items arising from fluctuation in foreign exchange rate.

The valuation of derivatives designated as a hedging instrument as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017			
	Valuation gain	**Valuation loss**	**Assets**	**Liabilities**
Interest rate:				
Interest rate swaps	₩ 889	₩ 8,671	₩ 82	₩ 31,300

(in millions of Korean won)	2016			
	Valuation gain	**Valuation loss**	**Assets**	**Liabilities**
Interest rate:				
Interest rate swaps	₩ 114	₩ 27,674	₩ 114	₩ 27,674

Gain (loss) on valuation of hedged items and hedging instrument for the years ended December 31, 2017 and 2016, are as follows

(in millions of Korean won)	**2017**	**2016**
Loss on valuation of hedging instrument	₩ (7,782)	₩ (27,561)
Gain on valuation of hedged items	6,300	27,538
	₩ (1,482)	₩ (23)

16. Investments in Associates and Joint Venture

Details of investments in associates and joint venture as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017					
	Main business	**Location**	**Closing month**	**Percentage of ownership (%)**	**Acquisition cost**	**Book amount**
Investments in associates:						
Consus Clean Water Private Special Asset Fund-1	Financial investment	The Republic of Korea	December	50.00	₩ 13,560	₩ 13,706
BNK 'Strong' Dividend Securities Investment Trust-1	Financial investment	The Republic of Korea	December	30.70	4,852	5,996
BNK 'Strong' Korea Securities Investment Trust-1	Financial investment	The Republic of Korea	December	36.76	7,913	9,342
Hanhwa Private Securities Investment Trust 102nd	Financial investment	The Republic of Korea	December	30.00	30,000	30,031
Investments in joint venture:						
Dongwha Capital[1]	Specialized credit financial business	The Republic of Korea	December	30.00	6,000	3,923
					₩ 62,325	₩ 62,998

(in millions of Korean won)	2016					
	Main business	**Location**	**Closing month**	**Percentage of ownership (%)**	**Acquisition cost**	**Book amount**
Investments in associates:						
Consus Clean Water Private Special Asset Fund-1	Financial investment	The Republic of Korea	December	50.00	₩ 9,157	₩ 9,233
BNK 'Strong' Dividend Securities Investment Trust-1	Financial investment	The Republic of Korea	December	48.06	10,000	10,290
BNK 'Strong' Korea Securities Investment Trust-1	Financial investment	The Republic of Korea	December	47.09	7,000	6,982
Investments in joint venture:						
Dongwha Capital[1]	Specialized credit financial business	The Republic of Korea	December	30.00	6,000	5,846
					₩ 32,157	₩ 32,351

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

In addition, the Group holds equity securities of Postech Co., Ltd., but no investments were made as at December 31, 2017 and 2016.

Changes in investments in associates and joint venture for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017					
	Beginning balance	**Acquisition/ disposal**	**Share of profit or loss of associates and joint venture**	**Dividends received**	**Others**	**Ending balance**
Investments in associates:						
Consus Clean Water Private Special Asset Fund-1	₩ 9,233	₩ 4,403	₩ 472	₩ (402)	₩ -	₩ 13,706
BNK 'Strong' Dividend Securities Investment Trust-1	10,290	(4,290)	282	-	(286)	5,996
BNK 'Strong' Korea Securities Investment Trust-1	6,982	3,018	(290)	-	(368)	9,342
Hanhwa Private Securities Investment Trust 102nd	-	30,000	31	-	-	30,031
Investments in joint venture:						
Dongwha Capital	5,846	-	(1,923)	-	-	3,923
	₩ 32,351	₩ 33,131	₩ (1,428)	₩ (402)	₩ (654)	₩ 62,998

(in millions of Korean won)	2016					
	Beginning balance	**Acquisition/ disposal**	**Share of profit or loss of associates and joint venture**	**Dividends received**	**Others**	**Ending balance**
Investments in associates:						
Consus Clean Water Private Special Asset Fund-1	₩ 4,883	₩ 4,305	₩ 263	₩ (218)	₩ -	₩ 9,233
BNK 'Strong' Dividend Securities Investment Trust-1	-	10,000	402	-	(112)	10,290
BNK 'Strong' Korea Securities Investment Trust-1	-	7,000	-	-	(18)	6,982
Investments in joint venture:						
Dongwha Capital	-	6,000	(67)	-	(87)	5,846
	₩ 4,883	₩ 27,305	₩ 598	₩ (218)	₩ (217)	₩ 32,351

Financial information of associates and joint venture as at and for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017					
	Current assets	**Current liabilities**	**Equity**	**Operating income**	**Operating profit (loss) from continuing operations**	**Total comprehen-sive income (loss)**
Investments in associates:						
Consus Clean Water Private Special Asset Fund-1	₩ 27,440	₩ 27	₩ 27,413	₩ 303	₩ 276	₩ 276
BNK 'Strong' Dividend Securities Investment Trust-1	19,628	100	19,528	9,084	3,239	3,239
BNK 'Strong' Korea Securities Investment Trust-1	25,477	67	25,410	14,894	4,989	4,989
Hanhwa Private Securities Investment Trust 102nd	189,920	89,816	100,104	88	59	59
Investments in joint venture:						
Dongwha Capital	19,777	1,121	18,656	9,030	(825)	(825)

(in millions of Korean won)	2016					
	Current assets	**Current liabilities**	**Equity**	**Operating income**	**Operating profit (loss) from continuing operations**	**Total comprehensive income (loss)**
Investments in associates:						
Consus Clean Water Private Special Asset Fund-1	₩ 18,483	₩ 17	₩ 18,466	₩ 220	₩ 203	₩ 203
BNK 'Strong' Dividend Securities Investment Trust-1	21,506	95	21,411	1,088	902	902
BNK 'Strong' Korea Securities Investment Trust-1	15,271	443	14,828	1,223	717	717
Investments in joint venture:						
Dongwha Capital	20,357	871	19,486	41	(225)	(225)

The reconciliations from the net assets of associates and joint venture based on the ownership ratio of the Group to its corresponding book amount of investments in associates and joint venture as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017			
	Net assets of associates and joint venture (A)	**The Group's ownership (B)**	**Net assets owned (AXB)**	**Book amount**
Investments in associates:				
Consus Clean Water Private Special Asset Fund-1	₩ 27,413	50.00%	₩ 13,706	₩ 13,706
BNK 'Strong' Dividend Securities Investment Trust-1	19,528	30.70%	5,996	5,996
BNK 'Strong' Korea Securities Investment Trust-1	25,410	36.76%	9,342	9,342
Hanhwa Private Securities Investment Trust 102nd	100,104	30.00%	30,031	30,031
Investments in joint venture:				
Dongwha Capital	18,656	30.00%	5,597	3,923

(in millions of Korean won)	2016			
	Net assets of associates and joint venture (A)	**The Group's ownership (B)**	**Net assets owned (AXB)**	**Book amount**
Investments in associates:				
Consus Clean Water Private Special Asset Fund-1	₩ 18,466	50.00%	₩ 9,233	₩ 9,233
BNK 'Strong' Dividend Securities Investment Trust-1	21,411	48.06%	10,290	10,290
BNK 'Strong' Korea Securities Investment Trust-1	14,828	47.09%	6,982	6,982
Investments in joint venture:				
Dongwha Capital	19,486	30.00%	5,846	5,846

There is no unrecognized share of losses of associates or joint ventures arising from discontinuation of equity method both for the reporting period and cumulatively.

17. Property and Equipment

Property and equipment as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017			
	Acquisition cost	**Accumulated depreciation**	**Accumulated impairment loss**	**Book amount**
Land	₩ 269,849	₩ -	₩ -	₩ 269,849
Building	458,822	65,557	-	393,265
Leasehold improvements	115,074	83,323	60	31,691
Equipment and vehicles	439,161	343,702	213	95,246
Construction in progress	39,421	-	-	39,421
Others	26,172	-	-	26,172
	₩ 1,348,499	₩ 492,582	₩ 273	₩ 855,644

(in millions of Korean won)	2016			
	Acquisition cost	**Accumulated depreciation**	**Accumulated impairment loss**	**Book amount**
Land	₩ 281,417	₩ -	₩ -	₩ 281,417
Building	409,066	58,078	-	350,988
Leasehold improvements	107,458	78,372	-	29,086
Equipment and vehicles	420,975	313,681	-	107,294
Construction in progress	32,260	-	-	32,260
	₩ 1,251,176	₩ 450,131	₩ -	₩ 801,045

Changes in property and equipment for the years ended December 31, 2017 and 2016, are as follows:

(in millions or Korean won)	2017							
	Beginning balance	**Acquisition**	**Disposal**	**Reclassification**	**Depreciation**	**Impairment loss**	**Others**	**Ending Balance**
Land	₩ 281,417	₩ 2,732	₩ (2,205)	₩ (12,095)	₩ -	₩ -	₩ -	₩ 269,849
Building	350,988	9,012	(1,138)	43,433	(9,030)	-	-	393,265
Leasehold improvements	29,086	9,307	(1,154)	1,710	(7,029)	-	(229)	31,691
Equipment and vehicles	107,294	19,948	(2,913)	16,013	(44,682)	(273)	(141)	95,246
Construction in progress	32,260	110,338	-	(103,177)	-	-	-	39,421
Others	-	-	-	26,172	-	-	-	26,172
	₩ 801,045	₩ 151,337	₩ (7,410)	₩ (27,944)	₩ (60,741)	₩ (273)	₩ (370)	₩ 855,644

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

18. Intangible Assets

Intangible assets as at December 31, 217 and 2016, consisted of the following:

(in millions of Korean won)	2017			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment loss**	**Book amount**
Software	₩ 184,714	₩ 130,129	₩ -	₩ 54,585
Goodwill	48,082	-	22,057	26,025
Core deposits	123,099	5,131	1,891	116,077
Others	188,492	71,213	1,197	116,082
	₩ 544,387	₩ 206,473	₩ 25,145	₩ 312,769

(in millions of Korean won)	2016			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment loss**	**Book amount**
Software	₩ 173,734	₩ 112,112	₩ -	₩ 61,622
Goodwill	48,082	-	22,057	26,025
Core deposits	156,558	21,073	1,891	133,594
Others	183,065	78,155	1,212	103,698
	₩ 561,439	₩ 211,340	₩ 25,160	₩ 324,939

Changes in intangible assets for the years ended December 31, 2017 and 2016, are as follows:

(in millions or Korean won)	2017							
	Beginning balance	**Acquisition**	**Disposal**	**Reclassification[1]**	**Amortization**	**Impairment loss**	**Others**	**Ending Balance**
Software	₩ 61,622	₩ 12,133	₩ -	₩ 5,754	₩ (24,918)	₩ -	₩ (6)	₩ 54,585
Goodwill	26,025	-	-	-	-	-	-	26,025
Core deposits	133,594	-	-	-	(17,517)	-	-	116,077
Others	103,698	45,648	(459)	(21)	(32,644)	(127)	(13)	116,082
	₩ 324,939	₩ 57,781	₩ (459)	₩ 5,733	₩ (75,079)	₩ (127)	₩ (19)	₩ 312,769

[1] Transferred from construction in progress.

(in millions or Korean won)	2016							
	Beginning balance	**Acquisition**	**Disposal**	**Reclassification[1]**	**Amortization**	**Impairment loss**	**Others**	**Ending Balance**
Software	₩ 70,455	₩ 11,370	₩ -	₩ 11,265	₩ (31,471)	₩ -	₩ 3	₩ 61,622
Goodwill	43,506	-	-	-	-	(17,481)	-	26,025
Core deposits	151,112	-	-	-	(17,518)	-	-	133,594
Others	102,529	9,529	(421)	18,314	(26,253)	(499)	499	103,698
	₩ 367,602	₩ 20,899	₩ (421)	₩ 29,579	₩ (75,242)	₩ (17,980)	₩ 502	₩ 324,939

[1] Transferred from construction in progress.

Impairment test on goodwill is based on value-in-use calculated by the recoverable amount of a cash-generating unit, and these calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. The cost of capital reflected in discounting estimated cash flows is determined as follows:

Input	Applied rate	Basis
Risk free interest rate	2.28%	Average of one year from the valuation date
Corporate Beta	54.76%	Reflecting capital structure of similar companies
Market rate premium (MRP)	9.76%	Average MRP of one year from the valuation date
Scale and Unlisted premium	1.00%	Considering unreviewed financial information and sales volume
Cost of capital	8.62%	

19. Investment Properties

Investment properties as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017			
	Acquisition cost	**Accumulated depreciation**	**Accumulated impairment loss**	**Book amount**
Land	₩ 103,703	₩ -	₩ -	₩ 103,703
Building	96,444	13,732	-	82,712
	₩ 200,147	₩ 13,732	₩ -	₩ 186,415

(in millions of Korean won)	2016			
	Acquisition cost	**Accumulated depreciation**	**Accumulated impairment loss**	**Book amount**
Land	₩ 94,846	₩ -	₩ -	₩ 94,846
Building	54,121	11,152	-	42,969
	₩ 148,967	₩ 11,152	₩ -	₩ 137,815

Rental income from investment properties is ₩2,415 million and ₩1,596 million for the years ended December 31, 2017 and 2016, respectively.

The fair value and assessment method of investment properties as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017	2016	Valuation techniques	Input variables
Land	₩ 125,555	₩ 113,869	- The evaluation method of using officially assessed land pricing - Sales comparison approach	- Officially assessed land pricing - Sales history
Building	85,201	45,181	- Evaluation by the prime cost	- Repurchase cost - Durable years
	₩ 210,756	₩ 159,050		

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

Changes in investment properties for the years ended December 31, 2017 and 2016, are as follows:

(in millions or Korean won)	2017						
	Beginning balance	Acquisition	Disposal	Reclassification[1]	Depreciation	Impairment loss	Ending Balance
Land	₩ 94,846	₩ -	₩ (639)	₩ 9,496	₩ -	₩ -	₩ 103,703
Building	42,969	-	(1,329)	42,535	(1,463)	-	82,712
	₩ 137,815	₩ -	₩ (1,968)	₩ 52,031	₩ (1,463)	₩ -	₩ 186,415

[1] Reclassifications as at December 31, 2017, are due to change in lease ratio for investment in real properties.

(in millions or Korean won)	2016						
	Beginning balance	Acquisition	Disposal	Reclassification[1]	Depreciation	Impairment loss	Ending Balance
Land	₩ 91,341	₩ -	₩ -	₩ 3,505	₩ -	₩ -	₩ 94,846
Building	41,069	-	-	2,943	(1,043)	-	42,969
	₩ 132,410	₩ -	₩ -	₩ 6,448	₩ (1,043)	₩ -	₩ 137,815

[1] Reclassifications as at December 31, 2016, are due to change in lease ratio for investment in real properties.

Operating lease

The Group entered in to various operating lease agreements for land and buildings which are classified as investment properties. The remaining periods of non-cancellable operating lease are within five years. The lease payments can be increased annually depending on the market condition under all operating lease agreements. The future minimum lease payments expected to be received in relation to the non-cancellable operating lease agreement for investment properties as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017		2016	
Within one year	₩	880	₩	298
Later than one year but not later than five years		236		277
Later than five years		-		-
	₩	1,116	₩	575

20. Other Assets

Other assets as at December 31, December 31, 2017 and 2016, consist of:

(in millions of Korean won)	2017		2016	
Guarantee deposits	₩	3,410	₩	1,629
Articles for consumption		985		1,197
Prepaid expenses		19,778		26,391
Operating lease assets		468,940		373,107
Prepaid lease assets		9,647		8,792
Others		20,676		79,115
	₩	523,436	₩	490,231

Details of prepaid lease assets as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017		2016	
Operating lease assets:				
Operating lease assets	₩	660,758	₩	532,255
Accumulated depreciation		(208,267)		(173,224)
Accumulated impairment loss		(4,991)		(5,241)
		447,500		353,790
Hedge lease assets:				
Hedge lease assets		12,412		30,061
Accumulated depreciation		(1,471)		(3,005)
Accumulated impairment loss		(10,941)		(23,623)
		-		3,433
Initial direct costs		21,440		15,884
Prepaid lease assets		9,647		8,792
	₩	478,587	₩	381,899

Operating lease assets

Lessee of operating lease assets by industry based on the acquisition cost as at December 31, 2017 and 2016, is as follows:

(in millions of Korean won)	**2017**			**2016**		
	Transport equipment	**General industrial equipment**	**Total**	**Transport equipment**	**General industrial equipment**	**Total**
Cost	₩ 561,320	₩ 111,849	₩ 673,169	₩ 393,159	₩ 169,157	₩ 562,316
Accumulated depreciation	150,859	58,879	209,738	114,499	61,729	176,228
Accumulated impairment losses	-	15,931	15,931	-	28,865	28,865
Book amount	₩ 410,461	₩ 37,039	₩ 447,500	₩ 278,660	₩ 78,563	₩ 357,223

The total of future minimum lease payments to the lessor at the end of the reporting period are as follows:

(in millions of Korean won)	**December 31, 2017**	**December 31, 2016**
Within one year	₩ 166,898	₩ 147,711
Later than one year but not later than five years	383,109	281,137
	₩ 550,007	₩ 428,848

Details of operating lease as at December 31, 2017 and 2016, are as follows:

The Group leases buildings, vehicles and others under non-cancellable operating lease agreements. The lease payments recognized as expenses for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**	**2016**
Within one year	₩ 5,933	₩ 3,780
Later than one year but not later than five years	10,972	11,472
Later than five years	44	59
	₩ 16,949	₩ 15,311

21. Deposits

Deposits as at December 31, 2017 and 2016, consist of the followings:

(in millions of Korean won)		2017		2016
Deposits in Korean won:				
Demand deposits	₩	7,699,044	₩	8,577,881
Term deposits		59,702,211		56,987,017
Mutual installment deposits		7,209		7,577
Mutual installment for housing		14,785		20,652
Others		199		193
		67,423,448		65,593,320
Deposits in foreign currencies		1,227,482		932,469
Negotiable certificates of deposit		1,173,662		1,078,602
	₩	69,824,592	₩	67,604,391

22. Borrowings

Borrowings as at December 31, 2017 and 2016, consist of:

(in millions of Korean won)	Annual interest rate (%)		2017		2016
Borrowings in Korean won:					
The BOK	0.50~0.75	₩	935,775	₩	1,011,749
Others	0~3.15		2,401,754		2,969,227
			3,337,529		3,980,976
Borrowings in foreign currencies:					
Overdraft on our account	4.00~5.00		2,458		19,465
Banks	0.58~2.31		267,297		297,215
Relending loans	1.63~1.95		61,841		90,178
Others	1.53~3.19		276,607		441,693
			608,203		848,551
Call money	0.80~2.00		17,683		240,000
Bonds sold under repurchase agreement:					
Korean won	0.69~2.70		1,064,560		958,627
Foreign currencies	-		43,659		47,694
			1,108,219		1,006,321
Bills sold	0.55~1.10		30,095		37,953
Securities sold	-		14,832		219,182
Deferred expenses from borrowings	-		(140)		(275)
		₩	5,116,421	₩	6,332,708

Details of borrowings of financial institution as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017			
	The BOK	**Other banks**	**Others**	**Total**
Borrowings in Korean won	₩ 935,775	₩ 918,195	₩ -	₩ 1,853,970
Borrowings in foreign currencies	-	546,362	61,841	608,203
Call money	-	17,683	-	17,683
Bonds sold under repurchase agreement	-	-	499,932	499,932
	₩ 935,775	₩ 1,482,240	₩ 561,773	₩ 2,979,788

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

23. Debentures

Debentures issued by the Group as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**Annual interest rate (%)**	**2017**	**2016**
Debentures in Korean won:			
Unsecured coupon bond	1.36~3.59	₩ 6,093,328	₩ 5,356,522
Subordinated bond	2.11~4.40	2,290,000	2,590,000
Present value discounts	-	(9,883)	(7,319)
		8,373,445	7,939,203
Debentures in foreign currencies:			
Senior bond	0.65	189,822	569,912
Subordinated bond	3.63	244,601	303,439
Gain on fair value hedge	-	1,889	(27,538)
Present value discounts	-	(2,349)	(3,418)
		433,963	842,395
		₩ 8,807,408	₩ 8,781,598

24. Net Defined Benefit Liabilities

Defined benefit plan

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

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

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

Actuarial assumptions and variables, such as market rate risk, wage rate risk, death rate risk, consumer price index, expected rate of return and others, are based on market information and historical data and are renewed annually. Profit or loss incurred from the change in actuarial assumptions and the difference between assumptions and actual results are recognized for the year.

As at December 31, 2017 and 2016, the amounts recognized in the consolidated statements of financial position related to post-employment benefits are as follows:

(in millions of Korean won)		**2017**		**2016**
Present value of funded defined benefit obligations	₩	445,125	₩	390,607
Fair value of plan assets		(413,396)		(383,069)
Net defined benefit liabilities	₩	31,729	₩	7,538

Movements in the net defined benefit liabilities for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017		
	Present value of defined benefit obligation	**Plan assets**	**Total**
Beginning balance	₩ 390,607	₩ (383,069)	₩ 7,538
Current service cost	51,859	-	51,859
Interest expenses (interest revenues)	12,511	(12,495)	16
	454,977	(395,564)	59,413
Remeasurements:			
Expected return on plan assets	-	8,534	8,534
Actuarial losses arising from changes in demographic assumptions	276	-	276
Actuarial losses arising from changes in financial assumptions	6,345	-	6,345
Others	11,049	-	11,049
	17,670	8,534	26,204
Contributions from the employer	-	(50,447)	(50,447)
Benefits paid	(28,386)	24,945	(3,441)
Effect of business combination and business disposal	864	(864)	-
Ending balance	₩ 445,125	₩ (413,396)	₩ 31,729

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

Details of fair values of plan assets as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	December 31, 2017		December 31, 2016	
	Amount	**Ratio (%)**	**Amount**	**Ratio (%)**
Time deposits	₩ 412,356	99.75	₩ 380,373	99.30
Others	1,040	0.25	2,696	0.70
	₩ 413,396	100.00	₩ 383,069	100.00

The significant actuarial assumptions as at December 31, 2017 and 2016, are as follows:

(in percentage, %)	2017	2016
Discount rate	2.67 ~ 3.50	2.18 ~ 3.50
Salary growth rate (including Inflation)	2.00 ~ 6.06	1.90 ~ 5.97

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

(in millions of Korean won)	**1% increase**	**1% decrease**
Change in discount rate	₩ 21,605	₩ 30,847
Change in salary growth rate	30,642	21,709

25. Provisions

Changes in provision for acceptances and guarantees and provision for unused credit limit for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**		
	Provision for acceptances and guarantees	**Provision for unused credit limit**	**Total**
Beginning balance	₩ 9,812	₩ 22,640	₩ 32,452
Foreign currency translation and others	(357)	-	(357)
Provision	1,323	1,909	3,232
Ending balance	₩ 10,778	₩ 24,549	₩ 35,327

(in millions of Korean won)	**2016**		
	Provision for acceptances and guarantees	**Provision for unused credit limit**	**Total**
Beginning balance	₩ 16,843	₩ 19,839	₩ 36,682
Foreign currency translation and others	114	-	114
Provision (reversal)	(7,145)	2,801	(4,344)
Ending balance	₩ 9,812	₩ 22,640	₩ 32,452

Changes in other provisions for the years ended December 31, 2017 and 2016 are as follows:

(in millions of Korean won)	2017				
	Beginning balance	**Increase**	**Decrease**	**Others**	**Ending balance**
Provision for restoration costs	₩ 6,312	₩ 75	₩ -	₩ 230	₩ 6,617
Provision for credit card point	1,865	248	(81)	1	2,033
Provision for dormant deposit	4,801	-	(4,801)	-	-
Provision for litigation	61,568	-	(61,128)	-	440
Others	1,434	10	(881)	(8)	555
	₩ 75,980	₩ 333	₩ (66,891)	₩ 223	₩ 9,645

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

Provision for restoration costs is the present value of expected settlement cost for the existing leasehold stores as at December 31, 2017 and 2016, which is discounted at an appropriate discount rate. Provision for restoration costs will be incurred at the end of lease contract of leasehold store, and average lease period of leasehold stores terminated within three years is used for estimation. Actual average restoration costs of leasehold stores for the past seven years and average inflation rate for the past three years are used for estimating the expected settlement cost.

26. Other Liabilities

Other liabilities as at December 31, 2017 and 2016, consist of the followings:

(in millions of Korean won)		**2017**		**2016**
Other financial liabilities:				
Due to trust accounts	₩	460,051	₩	458,097
Due to fund accounts		223		426
Foreign exchange remittances pending		45,355		32,619
Prepaid card liabilities		11,367		12,797
Debit card liabilities		15,542		14,068
Deposits for letter of guarantees and others		227,326		230,307
Present value discounts		(10,329)		(8,778)
Accounts payable		937,174		1,722,730
Accrued expenses		553,618		552,402
Financial guarantee contract liabilities		3,671		3,021
Agency business accounts		96,068		97,786
Unsettled domestic exchange liabilities		127,026		7,766
Deposits held by agency relationship		86,293		79,770
Guarantee deposits for securities subscription		4,259		5,739
		2,557,644		3,208,750
Other non-financial liabilities:				
Withholding taxes		14,968		16,020
Unearned revenues		35,593		33,826
Others		89,951		25,319
		140,512		75,165
	₩	2,698,156	₩	3,283,915

27. Equity

(a) Share capital

As at December 31, 2017, the Group has 700 million shares authorized with a par value of ₩ 5,000, and 325,935,246 shares have been issued. The Parent Company's share capital as at December 31, 2017, amounts to ₩ 1,629,676 million.

(b) Other paid-in capital

Other paid-in capital as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**		**2016**	
Share premium	₩	678,953	₩	678,968
Other capital surplus		102,339		105,343
Treasury shares		(213)		(213)
Gain on disposal of treasury share		5,826		5,826
Loss on disposal of treasury share		(122)		(122)
	₩	786,783	₩	789,802

(c) Hybrid equity securities

Details of hybrid equity securities issued by the Parent Company as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**Issue date**	**Maturity**	**Interest rate (%)**	**2017**		**2016**	
Hybrid equity securities in Korean won	2015.06.24	2045.06.24	4.60	₩	80,000	₩	80,000
	2015.06.24	2045.06.24	5.10		30,000		30,000
	2015.08.31	2045.08.31	4.48		150,000		150,000
Issuance cost					(723)		(723)
				₩	259,277	₩	259,277

Hybrid equity securities classified as non-controlling equity as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**Issue date**	**Maturity**	**Interest rate (%)**	**2017**		**2016**	
Hybrid equity securities in Korean won	2013.04.25	2043.04.25	4.75	₩	60,000	₩	60,000
	2013.05.27	2043.05.27	4.83		40,000		40,000
	2013.10.25	2043.10.25	5.55		90,000		90,000
	2013.11.07	2043.11.07	5.72		10,000		10,000
	2013.11.11	2043.11.11	6.00		37,000		37,000
	2013.11.28	2043.11.28	6.14		63,000		63,000
	2017.07.24	2047.07.24	4.58		150,000		-
	2017.09.19	2047.09.19	4.79		150,000		-
Issuance cost					(1,545)		(450)
				₩	598,455	₩	299,550

The Group can exercise its right to early repayment after 5 or 10 years from issuance of hybrid equity securities and the Group, on the maturity date, at its discretion may extend the maturity with the same term. In addition, if the Group decides not to pay dividends on the ordinary shares, the Group may not pay interest on the hybrid equity securities.

(d) Other components of equity

Other components of equity as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**		**2016**	
Accumulated other comprehensive income:				
Gain on valuation of AFS financial assets	₩	66,641	₩	86,065
Exchange differences on translation of foreign operations		(9,242)		9,005
Remeasurements of net defined benefit liabilities		(110,991)		(84,702)
Gain(loss) on valuation of hedges of net investments in foreign operations		4,839		(7,392)
Share of other comprehensive income of associates		(89)		(87)
Tax effects		12,786		(698)
	₩	(36,056)	₩	2,191

(e) Retained earnings

Retained earnings as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		**2017**		**2016**
Reserve:				
Earned profit reserves[1]	₩	481,671	₩	418,437
Regulatory reserve for credit loss		490,391		478,209
Discretionary reserves		2,125,577		1,816,711
		3,097,639		2,713,357
Retained earnings before appropriation		1,320,242		1,388,315
	₩	4,417,881	₩	4,101,672

[1] Article 53 of The Financial Holding Company Act requires a parent company to appropriate at least 10% of profit for the year to legal reserve, until such reserve equals 100% of its paid-up capital. This reserve is not available for payment of cash dividends; however, it can be used to reduce deficit or be transferred to capital.

Regulatory reserve for credit loss

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

Regulatory reserve for credit loss as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		**2017**		**2016**
Provided reserve for credit loss [1]	₩	490,391	₩	478,209
Expected provision of reserve for credit loss		57,777		12,182
Regulatory reserve for credit loss	₩	548,168	₩	490,391
Owners of the Parent Company	₩	548,168	₩	490,391
Non-controlling interests		-		-

[1] Provided reserve for credit loss as at December 31, 2017 and 2016, is the amount after appropriations of retained earnings.

Expected provision of reserve for credit losses, adjusted profit after the provision of regulatory reserve and adjusted earnings per share after the provision of regulatory reserve for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		**2017**		**2016**
Profit for the year of owners of the Parent Company	₩	403,100	₩	501,611
Provision of reserve for credit losses		57,777		12,182
Adjusted profit after the provision of regulatory reserve[1]	₩	345,323	₩	489,429
Adjusted earnings per share after the provision of regulatory reserve[1] *(in Korean won)*	₩	1,023	₩	1,484

[1] Adjusted profit and earnings per share after provision of reserve for credit loss are not in accordance with Korean IFRS, but are calculated on the assumption that provision or reversal of reserve for credit loss is adjusted to the profit (loss) for the year. Earnings per share after provision of reserve for credit loss are presented net of dividends on hybrid equity securities.

28. Net Interest Income

Net interest income, interest income and expenses for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		**2017**		**2016**
Interest income				
Due from banks	₩	8,178	₩	7,318
Financial assets at FVTPL		32,385		31,925
AFS financial assets		78,961		90,590
HTM financial assets		151,455		172,232
Loan receivables		2,886,575		2,772,882
Others		195,823		181,588
		3,353,377		3,256,535
Interest expense:				
Deposit liabilities		(747,820)		(755,487)
Borrowings		(74,062)		(80,355)
Debentures		(238,887)		(264,978)
Others		(11,987)		(15,322)
		(1,072,756)		(1,116,142)
Net interest income	₩	2,280,621	₩	2,140,393

29. Net Commission Income

Net commission income, commission income and expenses for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		**2017**		**2016**
Commission income:				
Commission received	₩	290,686	₩	288,143
Guarantees		15,292		12,281
Credit card		6,096		5,778
Others		459		1,038
		312,533		307,240
Commission expenses:				
Commission paid		(68,442)		(57,320)
Credit card		(84,378)		(81,858)
		(152,820)		(139,178)
Net commission income	₩	159,713	₩	168,062

30. Gain or Loss on Financial Assets at FVTPL

Gain or loss on financial assets at FVTPL for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		**2017**		**2016**
Gain on financial assets at FVTPL:				
Gain on disposal of financial assets held for trading	₩	2,365	₩	259
Gain on sale of financial assets held for trading		40,172		27,178
Gain on valuation of financial assets held for trading		7,999		2,806
Dividend income		266		626
Gain on valuation of financial assets designated as at FVTPL		1,210		776
Gain on sale of financial assets designated as at FVTPL		619		-
Dividend income of financial assets designated as at FVTPL		-		176
		52,631		31,821
Loss on financial assets at FVTPL:				
Loss on disposal of financial assets held for trading		(652)		(802)
Loss on sale of financial assets held for trading		(31,303)		(19,643)
Loss on valuation of financial assets held for trading		(4,918)		(7,146)
Purchase expenses of financial assets held for trading		-		-

(in millions of Korean won)		2017		2016
Loss on valuation of financial assets designated at FVTPL		(739)		-
Loss on sale of financial assets designated at FVTPL		(5)		-
		(37,617)		(27,591)
Net gain on financial assets at FVTPL	₩	15,014	₩	4,230

31. Gain or Loss on AFS Financial Assets

Gain or loss on AFS financial assets for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Gain on AFS financial assets:				
Gain on sale of AFS financial assets	₩	17,087	₩	30,313
Dividend income		33,030		31,887
	₩	50,117	₩	62,200
Loss on AFS financial assets:				
Loss on sale of AFS financial assets	₩	(3,257)	₩	(315)
Impairment loss on AFS financial assets		(8,635)		(6,816)
		(11,892)		(7,131)
Net gain on AFS financial assets	₩	38,225	₩	55,069

32. Provision For Credit Loss

Provision for credit loss for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		**2017**		**2016**
Reversal of provision for credit loss and others:				
Reversal of provisions:				
Reversal of provision for credit loss on acceptances and guarantees	₩	783	₩	7,145
Reversal of provision for credit loss on financial guarantee contract		469		282
Reversal of provision for credit loss on unused credit limits		1,192		137
Others		-		82
		2,444		7,646
Gain on disposal of loan receivables		37,769		58,315
		40,213		65,961
Contribution to provision for credit loss and others:				
Contribution to provisions:				
Impairment loss		(546,262)		(418,586)
Contribution to provision for credit loss on acceptances and guarantees		(2,106)		-
Contribution to provision for credit loss on unused credit limits		(3,101)		(2,938)
Contribution to provision for credit loss on financial guarantee contract		-		(56)
		(551,469)		(421,580)
Loss on disposal of loan receivables		(108,210)		(75,765)
		(659,679)		(497,345)
Contribution to provision for credit loss	₩	(619,466)	₩	(431,384)

33. General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Employee benefits:				
Salaries	₩	483,431	₩	485,225
Employee benefit expenses		155,527		147,612
Post-employment benefits		51,985		52,829
Severance pay		30,442		35,299
		721,385		720,965
Rent		39,079		38,582
Business promotion expenses		15,915		17,108
Depreciation		62,140		64,020
Amortization		75,065		75,225
Taxes and dues		40,025		37,453
Other administrative expenses		184,058		168,799
	₩	1,137,667	₩	1,122,152

34. Other Operating Income and Expenses

Gains and losses on foreign currency transactions for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Gains on foreign currency transactions:				
Gain on foreign currency transactions	₩	283,780	₩	298,488
Foreign currency translation gains		65,286		49,436
		349,066		347,924
Losses on foreign currency transactions:		(248,626)		(282,665)
Loss on foreign currency transactions		(39,808)		(56,200)
Foreign currency translation losses		(288,434)		(338,865)
	₩	60,632	₩	9,059

Net income and loss related to derivatives for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		**2017**		**2016**
Gains on financial derivatives:				
Gains on derivative transactions	₩	402,550	₩	477,568
Gains on valuation of derivatives		74,614		145,332
Gains on settlement of derivatives		-		63
		477,164		622,963
Losses on financial derivatives:				
Losses on derivative transactions		(412,726)		(463,685)
Losses on valuation of derivatives		(86,171)		(141,695)
Losses on settlement of derivatives		-		(47)
		(498,897)		(605,427)
	₩	(21,733)	₩	17,536

Other operating revenues and expenses for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		**2017**		**2016**
Other operating revenue:				
Gain on fair value hedged items	₩	8,264	₩	27,636
Trust fees and commissions received from trust account		28,649		26,884
Reversal of other provisions		5,763		36,185
Operating lease income		142,004		125,934
Others		556		1,392
		185,236		218,031
Other operating expenses:				
Loss on fair value hedged items		(1,964)		(99)
Trust management fees		(87)		(86)
Credit card charges		(15)		(21)
Contribution to credit guarantee fund		(83,171)		(82,920)
Contribution to housing credit guarantee fund		(33,529)		(28,546)
Insurance fees on deposits		(92,076)		(86,513)
Other provisions		(333)		(191)
Operating lease expense		(135,377)		(131,441)
Others		(19,699)		(16,746)
		(366,251)		(346,563)
	₩	(181,015)	₩	(128,532)

35. Non-operating Income and Expenses

Non-operating income and expenses for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**	**2016**
Income from investments in associates		
Share of profit of associates	₩ 805	₩ 665
Gain on disposal of investments in associates	1,275	552
Share of loss of associates	(2,232)	(68)
Loss on disposal of investments in associates	-	(501)
	(152)	649
Non-operating income:		
Gain on disposal of property and equipment	846	444
Reversal of impairment loss on intangible assets	-	136
Rental income	2,415	1,596
Restoration income	113	233
Gain on collection of charge-offs	1,048	1,876
Miscellaneous income	13,064	16,603
Other non-operating income	114	131
	17,600	21,019
Non-operating expenses:		
Expenses on collection of charge-offs	(518)	(527)
Loss on disposal of property and equipment	(4,028)	(744)
Loss on retirement of property and equipment	(40)	(119)
Impairment loss on property and equipment	(273)	-
Loss on disposal of assets held-for sale	-	(524)
Loss on disposal of intangible assets	(2)	(6)
Impairment loss on intangible assets	(127)	(17,481)
Donations	(23,918)	(21,106)
Miscellaneous expenses	(24,667)	(4,855)
Regulation penalty	(14)	-
Restoration loss	(435)	(183)
	(54,022)	(45,545)
	₩ (36,574)	₩ (23,877)

36. Income Tax Expense

Income tax expense for the years ended December 31, 2017 and 2016, consists of:

(in millions of Korean won)		2017		2016
Current tax:	₩	136,357	₩	184,431
Changes in deferred tax liabilities by temporary difference:				
Opening balance of deferred tax liabilities		(36,446)		(59,587)
Ending balance of deferred tax liabilities		(19,319)		(36,446)
		(17,127)		(23,141)
Tax effect		119,230		161,290
Changes in deferred tax liabilities reflected directly in equity:		13,556		9,000
Income tax expense	₩	132,786	₩	170,290

Changes in accumulated temporary differences as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	December 31, 2017				December 31, 2016			
		Accumulated temporary difference		Deferred tax assets (liabilities)		Accumulated temporary difference		Deferred tax assets (liabilities)
Temporary difference to be deducted:								
Loss on valuation of financial assets	₩	87,269	₩	22,690	₩	54,925	₩	13,285
Accrued expenses		61,516		15,994		55,576		13,425
Adjustment of acquisition value for debt-to-equity swap		71,201		18,512		54,756		13,251
Deferred loan origination fees		14,218		3,697		22,350		5,384
Provision for losses on unused credit limits		24,756		6,437		22,809		5,520
Honorary retirement benefits		18,535		4,819		23,782		5,755
Loss on valuation of derivative instruments		100,866		26,225		123,958		29,998
Deposits that the statute of limitation expired		7,505		1,951		5,499		1,330
Guarantee deposits for leases (discounted present value)		4,245		1,104		4,368		1,052
Unearned point revenues		12,448		3,236		10,959		2,652
Other provision		6,941		1,805		72,257		17,482
Loss on valuation of unsettled spot transactions		502		131		746		180
Provision for possible losses on acceptances and guarantees		11,274		2,931		11,115		2,690
Provision for retirement benefits disallowance		404,202		105,092		352,238		85,097

(in millions of Korean won)	December 31, 2017		December 31, 2016	
	Accumulated temporary difference	Deferred tax assets (liabilities)	Accumulated temporary difference	Deferred tax assets (liabilities)
Unearned revenues (leasehold deposits provided)	9,794	2,546	8,240	1,994
Impairment of AFS financial assets	36,751	9,555	44,249	10,704
Claim for reimbursement	164,217	42,696	120,089	29,062
Others	112,799	29,328	113,934	22,270
Tax deficit	23,708	6,164	28,455	6,674
	1,172,747	304,913	1,130,305	267,805
Temporary difference to be added:				
Interest receivables on securities	(184,387)	(47,941)	(190,100)	(45,919)
Revaluation of excess of land	(50,222)	(13,058)	(51,211)	(12,393)
Gain on valuation of debentures invested (adjustment of book amount)	(138,021)	(35,885)	(137,100)	(32,990)
Gain on valuation of derivative instruments	(63,848)	(16,600)	(124,209)	(30,058)
Investments in credit rehabilitation fund	(17,075)	(4,439)	(16,704)	(4,042)
Deferred loan origination costs	(150,513)	(39,133)	(148,537)	(35,879)
Guarantee deposits for leases (prepaid rent)	(4,577)	(1,190)	(5,171)	(1,244)
Discounted present value	(9,825)	(2,554)	(8,530)	(2,064)
Initial direct costs of lease	(21,440)	(5,574)	(15,884)	(3,844)
Remeasurements of defined benefit plan	(371,977)	(96,714)	(335,098)	(80,995)
Fair value adjustment by business combination	(154,725)	(40,228)	(184,610)	(44,676)
Others	(80,445)	(20,916)	(42,614)	(10,147)
	(1,247,055)	(324,232)	(1,259,768)	(304,251)
Net of temporary difference	₩ (74,308)	₩ (19,319)	₩ (129,463)	₩ (36,446)

Details of temporary difference reflected directly in equity as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017		2016	
	Other comprehensive income	Tax effect	Other comprehensive income	Tax effect
Temporary difference reflected directly in equity:				
Gain (loss) on valuation of AFS financial assets	₩ (81,431)	₩ (21,172)	₩ (110,373)	₩ (26,320)
Foreign currency translation losses on overseas operations	3,713	965	(8,792)	(2,128)
Remeasurements of defined benefit plan	129,286	33,548	104,525	25,273
Gain (loss) on valuation of hedges of net investments in foreign operations	(4,839)	(1,171)	7,391	1,789
Changes in equity under the equity method	87	21	87	21
	₩ 46,816	₩ 12,191	₩ (7,162)	₩ (1,365)

Reconciliation between profit before income tax and income tax expense for the years ended December 31, 2017 and 2016, is as follows:

(in millions of Korean won)	2017	2016
Profit before income tax	₩ 557,750	₩ 688,404
Taxes payable[1]	134,514	166,132
Tax effect of:		
Non-taxable income (₩ 34,567 million in 2017, ₩ 33,169 million in 2016)	(8,337)	(8,005)
Non-deductible expenses (₩ 19,121 million in 2017, ₩ 22,301 million in 2016)	4,612	5,382
Consolidated tax	(12,270)	(11,841)
Others	14,267	18,622
Income tax expense	₩ 132,786	₩ 170,290
Effective tax rate (income tax expense/profit before income tax)	23.81%	24.74%

[1] Taxe payables are calculated by applying income tax rate (11% for less than ₩200 million, 22% for ₩200 million to ₩20 billion and 24.2% for more than ₩20 billion) to profit before income tax.

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

(in millions of Korean won)

Year incurred	Loss incurred[1]		Lapse amount		December 31, 2017		Offset period
2011	₩	4,620	₩	-	₩	4,620	Until the end of 2021

[1] The Group has implemented a consolidated tax system from 2012, which disables offset of any losses carried forward prior to the consolidated tax system.

Details of current tax liabilities (income tax payable) and current tax assets (income tax refundable) before offsetting as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017		2016
Income tax refundable prior to offsetting	₩	101,493	₩	100,386
Tax payables prior to offsetting		135,372		182,248
Deferred tax liabilities	₩	33,879	₩	81,861

37. Earnings Per Share

Basic earnings per share are calculated by dividing profit attributable to owners of the Parent Company by weighted average number of ordinary shares outstanding for the years ended December 31, 2017 and 2016.

Weighted average number of ordinary shares for the years ended December 31, 2017 and 2016, are as follows:

(in shares)	2017		
	Number of ordinary shares	**Days**	**Weighted average number of shares**
Beginning	325,920,391	365	118,960,942,715
			118,960,942,715
Weighted average number of ordinary shares			325,920,391

(in shares)	2016		
	Number of ordinary shares	**Days**	**Weighted average number of shares**
Beginning	255,920,391	22	5,630,248,602
Increased paid-in capital	325,920,391	344	112,116,614,504
			117,746,863,106
Weighted average number of ordinary shares			321,712,741

Basic earnings per share attributable to owners of the Parent Company for the years ended December 31, 2017 and 2016, are as follows:

(in Korean won and in shares)	**2017**	**2016**
Profit for the year attributable to owners of the Parent Company	₩ 403,100,234,100	₩ 501,610,990,837
Dividends on hybrid equity securities	(11,930,000,000)	(12,045,777,779)
Profit attributable to the ordinary equity holders	391,170,234,100	489,565,213,058
Weighted average number of ordinary shares outstanding	325,920,391	321,712,741
Basic earnings per share	₩ 1,200	₩ 1,522

Diluted earnings per share for the years ended December 31, 2017 and 2016, are equal to the basic earnings per share because the Group did not have any potentially dilutive ordinary shares during the year.

38. Contingencies and Commitments

Payment guarantees as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	Type	2017	2016
Confirmed acceptances and guarantees:			
Confirmed acceptances and guarantees in Korean won	Payment guarantee for loans	₩ 122,396	₩ 138,642
	Others	569,720	568,847
		692,116	707,489
Confirmed acceptances and guarantees in foreign currencies	Acceptances on letters of credit	8,875	11,466
	Acceptances on letters of guarantee for importers	27,050	31,261
	Others	219,973	262,821
		255,898	305,548
		948,014	1,013,037
Unconfirmed acceptances and guarantees:	Letters of credit	270,906	327,043
	Others	10,249	14,514
		281,155	341,557
Others:	Endorsed bill	-	1,829
		₩ 1,229,169	₩ 1,356,423

Confirmed and unconfirmed acceptances and guarantees by customer as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017		2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Confirmed acceptances and guarantees:				
Large corporate	₩ 66,351	7.00	₩ 350,193	34.57
Small- and medium-sized corporate[1]	312,534	32.97	640,347	63.21
Household	569,129	60.03	22,497	2.22
	₩ 948,014	100.00	₩ 1,013,037	100.00
Unconfirmed acceptances and guarantees:				
Large corporate	₩ 69,994	24.90	₩ 92,525	27.09
Small- and medium-sized corporate[1]	211,161	75.10	249,032	72.91
	₩ 281,155	100.00	₩ 341,557	100.00

[1] Small- and medium-sized corporates are SMEs in accordance with Article 2, Section 1, of small- and medium-sized Enterprise Basic Law.

Confirmed and unconfirmed acceptances and guarantees by country as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**		**2016**	
	Amount	**Percentage (%)**	**Amount**	**Percentage (%)**
Confirmed acceptances and guarantees:				
Korea	₩ 947,984	100.00	₩ 1,012,997	99.99
Others	30	0.00	40	0.01
	₩ 948,014	100.00	₩ 1,013,037	100.00
Unconfirmed acceptances and guarantees:				
Korea	₩ 278,670	99.12	₩ 341,492	99.98
China	54	0.02	65	0.02
Others	2,431	0.86	-	-
	₩ 281,155	100.00	₩ 341,557	100.00

Unused commitments as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**	**2016**
Corporates	₩ 7,162,738	₩ 7,581,780
Households	1,063,448	1,086,010
Credit card	2,536,297	2,312,318
Securities purchase agreement	386,442	374,790
	₩ 11,148,925	₩ 11,354,898

Lawsuits

As at December 31, 2017 and 2016, the Group's major lawsuits are as follows:

(in millions of Korean won)	**2017**		**2016**	
	As a plaintiff	**As a defendant**	**As a plaintiff**	**As a defendant**
Number (case)	35 cases	62 cases	47 cases	69 cases
Amount	₩ 94,316	₩ 86,367	₩ 150,973	₩ 88,527
Provisions related to these lawsuits		₩ 440		₩ 61,568

The Group recognized ₩ 440 million of provisions related to these lawsuits as at December 31, 2017.

The effect of judgement about ordinary wages

The Supreme Court had made its decision in relation to ordinary wage case prior to year 2016. The Group has reviewed the effect of the Supreme Court ruling on its consolidated financial statements and the Group decided not to recognize provision as it anticipates the possibility of outflow of resources to be insignificant.

39. Trust Account (Not Audited by Independent Auditor):

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

Financial summary of trust accounts for which the Group provides the guarantees for a fixed rate of return and the repayment of principal as at December 31, 2017 and 2016, is as follows:

(in millions of Korean won)	2017		2016	
	Total assets	**Operating income**	**Total assets**	**Operating income**
Trust accounts guaranteeing a fixed rate of return and the repayment of principal[1]	₩ 2,207	₩ 88	₩ 2,196	₩ 66
Trust accounts guaranteeing the repayment of principal [2]	486,920	21,015	450,912	16,423
Mixed trust accounts[3]	4,692	175	4,798	212
Performance-based trust account[4]	13,362,368	154,495	13,213,311	139,292
	₩ 13,856,187	₩ 175,773	₩ 13,671,217	₩ 155,993

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

The transactions between the Group and trust accounts for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		**2017**		**2016**
Revenues:				
Gain on trust account	₩	28,649	₩	26,884
Retirement pension management fee		5,871		5,245
		34,520		32,129
Expenses:				
Interest expense related to borrowings from trust account		(5,091)		(5,985)
Trust management fee		(87)		(86)
	₩	(5,178)	₩	(6,071)

Assets and liabilities of trust accounts as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		**2017**		**2016**
Assets:				
Accrued income	₩	7,448	₩	7,077
Retirement pension management fee		2,921		2,602
		10,369		9,679
Liabilities:				
Borrowings from trust account		460,051		458,097
Accrued expenses		274		311
Unearned revenue		159		289
	₩	460,484	₩	458,697

Details of trust accounts for which the Group provides the guarantees for a fixed rate of return and the repayment of principal as at December 31, 2017 and 2016, are as follows

(in millions of Korean won)		**2017**		**2016**
Trust accounts guaranteeing the repayment of principal:				
Elderly living pension trust	₩	845	₩	639
Personnel pension trust		174,416		163,890
Retirement trust		4,280		17,070
New personnel pension trust		5,225		6,481
Pension trust		293,343		225,630
		478,109		413,710
Trust accounts guaranteeing a fixed rate of return and the repayment of principal:				
Unspecified monetary trust		33		31
Borrowings from trust account		23		244
Interest payable - borrowings from trust account		153		698
	₩	209	₩	973

40. **Transactions with Related Parties**

All intercompany transactions, including intercompany receivables and payables, are eliminated on consolidation.

Outstanding balances arising from sales/purchases of goods and services as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)			**2017**		**2016**
Associate					
Postech Co., Ltd.	Loan receivables	₩	-	₩	28,641
	Provision for impairment		-		1,316
	Deposit liabilities		-		4

Sales and purchases with related parties for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)			**2017**		**2016**
Joint venture					
Dongwha Capital	Purchase of loan receivables and others	₩	80,881	₩	-

Fund transactions with related parties for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)			2017		2016
Joint venture					
Dongwha Capital	Contribution for incorporation	₩	-	₩	6,000
	Credit grants		5,000		-

BNK Capital, a subsidiary of the Group, granted general loan limits amounting to ₩ 5,000 million to its joint venture, Dongwha Capital, for the year ended December 31, 2017.

Compensation for key management (registered executive) for the years ended December 31, 2017 and 2016, is as follows:

(in millions of Korean won)		2017		2016
Short-term employee benefits	₩	1,556	₩	1,309
Share-based payment		548		452
	₩	2,104	₩	1,761

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

41. Statements of Cash Flows

The Group's cash and cash equivalents in the consolidated statements of cash flows as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017	2016
Cash on hand	₩ 636,164	₩ 524,483
Foreign currencies	79,645	90,872
Deposits in local currency	2,133,966	2,521,935
Deposits in foreign currencies	292,372	276,761
	3,142,147	3,414,051
Due from banks (Note 7)	(2,127,570)	(2,555,439)
	₩ 1,014,577	₩ 858,612

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

Details of material transactions without cash inflows and outflows as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017	2016
Reclassification of construction in process	₩ 5,727	₩ 29,579
Reclassification between property and equipment, investment properties and assets held for sale	29,820	5,909
Changes in accumulated other comprehensive income from valuation of AFS financial assets	21,017	27,544
Remeasurements of net defined benefit liabilities	26,204	1,505

Changes in liabilities arising from financial activities

Changes in net debt for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	At January 1, 2017	Cash flows	Exchange differences	Fair value hedge	Others	At December 31, 2017
Borrowings	₩ 6,332,708	₩(1,201,062)	₩ (48,257)	₩ -	₩ 33,032	₩ 5,116,421
Debentures	8,781,598	86,959	(67,437)	1,889	4,399	8,807,408
Total debt arising from financial activities	₩15,114,306	₩(1,114,103)	₩ (115,694)	₩ 1,889	₩ 37,431	₩13,923,829

(in millions of Korean won)	At January 1, 2016	Cash flows	Exchange differences	Fair value hedge	Others	At December 31, 2016
Borrowings	₩ 6,025,842	₩ 189,453	₩ 5,808	₩ -	₩ 111,605	₩6,332,708
Debentures	8,152,822	608,149	42,646	(26,224)	4,205	8,781,598
Total debt arising from financial activities	₩14,178,664	₩ 797,602	₩ 48,454	₩ (26,224)	₩ 115,810	₩15,114,306

42. Dividends

The dividends paid in 2017 were ₩ 74,962 million (₩ 230 per share) which is an identical amount to the dividends paid in 2016.

A dividend in respect of the year ended December 31, 2017, of ₩ 230 per share, amounting to a total dividend of ₩ 74,962 million, is to be proposed to shareholders at the annual general meeting on March 23, 2018. These financial statements do not reflect this dividend payable.

43. Unconsolidated Structured Entities

The Group owns interests in unconsolidated structured entities where the Group does not have control in accordance with Korean IFRS 1110. The natures of interests and risks are as follow:

Interests owned by the Group in unconsolidated structured entities has been classified per nature and purpose of each structured entity into structured financing and investment fund.

Unconsolidated structured entities classified as ‘structured financing’ include real estate project financing investment entity, infrastructure development entity and special-purpose entity for shipping and aviation financing. Each entity was incorporated as a separate entity to efficiently carry out the Group’s business. The funds are raised through channels such as equity investments, loans from financial institutions and participating organizations. Structured financing is a way of funding large scale businesses with risks. The structured financing invests in qualifying companies not based on credit or physical collateral of the Group leading the project, but the economic feasibilities of the specific project. Investors of the entity benefit from the income arising from the ongoing projects and the Group recognizes interest income, income from valuation of equity investments and dividend income. Although an entity that provides funds, joint guarantees, unsubordinated credit offerings and others exists prior to the Group’s financial support, if the funds are not collected by the predetermined schedule or if circumstances such as cessation of a project occurs, the Group could be exposed to principal losses due to decrease in value of equity investments or losses arising from uncollectible loans.

Unconsolidated structured entities classified as ‘investment fund’ include investment trust company and private equity firm. The investment trust company delegates investment and management to fund managers according to the trust agreement and distributes operating profit to the investors. The private equity firm invests in equity securities through private placement in order to participate in management, enhance governance, and others. The income from the investment is distributed to the investors. The Group, an investor to the investment fund, recognizes income from valuation of equity investments and dividend income in proportion to its share ratio. If the value of the private equity fund decreases, the Group will be exposed to the risk of principal losses.

Total asset size of the unconsolidated structured entities, book amount for the line items as recognized in the consolidated financial statements, maximum exposure to loss and loss incurred for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**		
	Investment fund	**Structual financing**	**Asset-backed securitization**
Total assets of unconsolidated structured entity	₩ 8,841,791	₩ 67,153,508	₩ 34,857,700
Recognized assets related to unconsolidated structured entities:			
Financial assets held for trading	27,510	-	-
AFS financial assets	527,007	174,415	212,494
HTM financial assets	-	-	198,539
Loans and receivables	-	3,302,466	-
(Provision for impairment)	-	(39,355)	-
	554,517	3,437,526	411,033
Recognized liabilities related to unconsolidated structured entities:			
Financial guarantee contract	-	-	-
Maximum exposure to loss [1]			
Investments	554,517	3,437,526	411,033
Investment commitments	89,075	18,762	-
Loan commitments	-	1,133,850	-
Financial guarantee contract	-	158,345	-
Purchase commitment	-	-	88,000
	643,592	4,748,483	499,033
Loss on unconsolidated structured entity	₩ 653	₩ 28,040	₩ 1,535

[1] Maximum exposure to loss includes the amount of investment assets recognized on the statement of financial position, and the amount readily determinable when specific criteria of contracts including purchase agreement or credit grants are met.

(in millions of Korean won)	2016		
	Investment fund	**Structual financing**	**Asset-backed securitization**
Total assets of unconsolidated structured entity	₩ 7,286,093	₩ 73,735,325	₩ 33,100,727
Recognized assets related to unconsolidated structured entities:			
Financial assets held for trading	27,510	-	-
AFS financial assets	434,503	175,442	212,494
HTM financial assets	-	-	198,539
Loans and receivables	-	3,444,718	5,250
(Provision for impairment)	-	(37,893)	(24)
	462,013	3,582,267	416,259
Recognized liabilities related to unconsolidated structured entities:			
Financial guarantee contract	-	-	-
Maximum exposure to loss [1]			
Investments	462,013	3,582,267	328,259
Investment commitments	89,075	18,762	-
Loan commitments	-	1,131,203	-
Financial guarantee contract	-	158,345	-
Purchase commitment	-	-	88,000
	551,088	4,890,577	416,259
Loss on unconsolidated structured entity	₩ 156	₩ 27,469	₩ 263

[1] Maximum exposure to loss includes the amount of investment assets recognized on the statement of financial position, and the amount readily determinable when specific criteria of contracts including purchase agreement or credit grants are met.

44. Events After the Reporting Period

The Group's Board of Directors approved additional contribution of ₩ 200 billion to BNK Securities Co., Ltd., a subsidiary, on February 28, 2018, and the payments were made on March 5, 2018. Accordingly, the Group owns 22,600,000 shares (percentage of ownership: 100%) of BNK Securities Co., Ltd.

Non-guaranteed debentures issued by Busan Bank, a subsidiary, after the end of the reporting period, are as follows:

(in millions of Korean won)	**Issuance date**	**Annual interest rate (%)**		**Amount**	**Remark**
2018-01	2018-01-23	2.44	₩	50,000	Operating fund
2018-02	2018-02-13	2.54		80,000	Refunding
2018-03	2018-03-14	2.57		100,000	Operating fund

The Group determined issuance terms and conditions of write-down contingent capital securities and issued them on February 13, 2018.

45. Approval of Issuance of the Financial Statements

The consolidated financial statements 2017 were approved for issue by the Board of Directors on February 8, 2018 and are subject to change with the approval of shareholders at their Annual General Meeting on March 23, 2018.