KB

2016 ANNUAL REPORT

Driving inclusive growth

KB Insurance

KB

KB Insurance

KB Insurance has led the domestic insurance industry for 58 years since its establishment in 1959. As the most preferred insurance company providing optimum protection against risk and an integrated consulting service, KB Insurance provides our customers with a feeling of security and hope in their personal life and their business.

The business scope of KB Insurance currently covers the financial, real estate and service industries, so that each of the operation divisions and branches nationwide can carry out asset management and provide a whole range of insurance products, which constitutes fire, marine, special, car, long-term, personal pension, retirement insurance, etc.

By becoming a member of the KB Financial Group, we have laid a foundation internally to enhance competitiveness through synergies among the affiliated companies, and further raised the brand image as a professional financial institution externally.

FEATURE
1

ESTABLISHING A NEW PARADIGM

As a trusted and preferred company, KB Insurance has constructed a base of synergy. This has been accomplished through our support of the success of sales people, our encouragement of growth and self-esteem in employees, and the continuous enhancement of our enterprise value due to solid growth. As an open and honest company, KB Insurance faithfully performs its responsibility as a member of society to create new insurance values.

FEATURE
2

DEVELOPING MEANINGFUL CHANGE

In line with the image of professionalism that the KB Financial Group brand targets, KB Insurance provides high-quality products and services, pursues qualitative growth, proactively responds to a rapidly changing environment, and develops new growth engines. We ensure that all work and company management is implemented transparently and fairly, always communicate openly with our stakeholders, and develop future-oriented organizations by improving the work process, which will allow our stakeholders to grow together in collaboration.

FEATURE
3

RISING TO THE CHALLENGE

KB Insurance has three overseas subsidiaries in the USA, China, and Indonesia. With the expansion of overseas business, we provide optimum protection against risks and an integrated consulting service that can meet the specific needs of each location in a differentiated method.

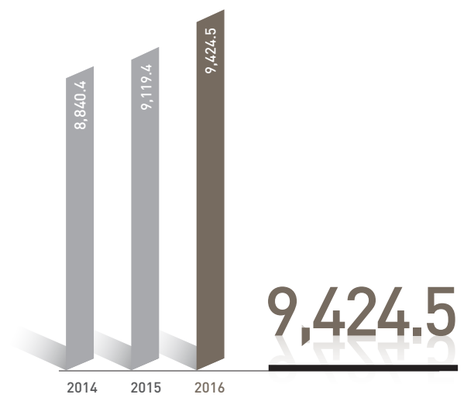
Financial Highlights

	FY 2016 (KRW billions)	FY 2015 (KRW billions)	Change (%)
FOR THE YEAR			
Direct Premium Written	9,424.5	9,119.4	3.3%
Underwriting income	-262.3	-458.5	-42.8%
Investment income	703.0	679.7	3.4%
Operating income	440.8	221.2	99.3%
Net Income	295.8	173.7	70.2%
AT THE YEAR END			
Invested Assets	23.254.3	20,738.1	12.1%
Total Assets	29,352.2	26,503.6	10.7%
Catastrophe Reserve	663.2.	619.7	7.0%
Total Liabilities	26,916.6	24,426.6	10.2%
Total Shareholder's Equities	2,435.6	2,077.0	17.3%

Note: All figures are based on K-IFRS. The conversion from KRW to USD is shown here and in the rest of this report for information purposes only

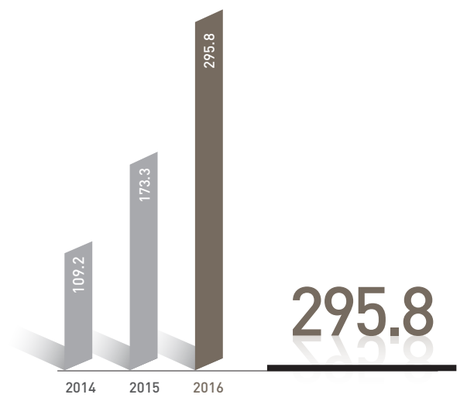
DIRECT PREMIUMS WRITTEN

(unit: in billions of KRW)



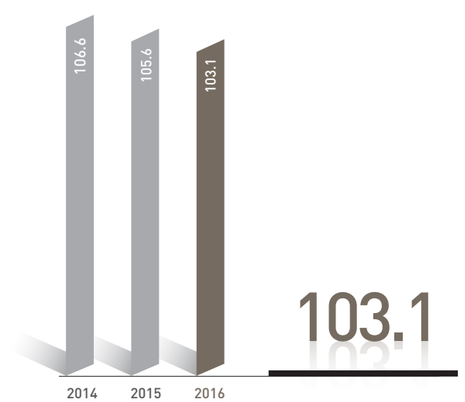
NET INCOME TREND

(unit: in billions of KRW)



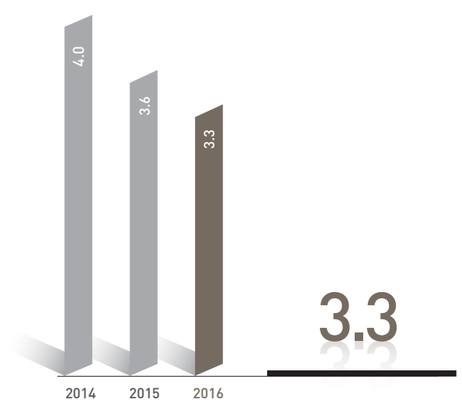
COMBINED RATIO

(%)



GROSS INVESTMENT YIELD

(%)



2016 At a Glance

KB Insurance, formerly Beomhan Marine founded in 1959, celebrates the 58th anniversary of its foundation this year as a representative insurance company in the domestic market.

We acquired an A (A-, Excellent) grade from the world-famous U.S. insurance appraisal specialist A.M. Best for the 13th consecutive year, which proves the excellence of our financial and managerial status and that we are a super blue chip insurance company both in name and reality. In addition, thanks to the fact that we have won awards in various fields such as finance, business, customer service, etc., our value and role as an insurance company has been recognized.

In July 2016, we won the Comprehensive Grand Prize in the Korea Service Grand Prix hosted by Korean Standards Association, and thereby could take one step closer to our vision of becoming the most preferred insurance company. In November 2016, it was a splendid glory when we won the Grand Prize in the corporate Internet communication sector of the Korea Internet Communication Awards as a result of the competitiveness we secured in customer communication.

When it comes to products, we have developed the KB Magic Car "public transportation discount option," which combined public transportation use with the benefit of a discount on car insurance for the first time in the industry in collaboration with the KB Financial Group and KB Kookmin Card, and obtained good response. In addition, we introduced the concept of "shared insurance" with the development of "KB Magic Car Driver's Shared Insurance" for the first time in the industry, and acquired the exclusive use rights for it.

KB INSURANCE WINS GOLD MEDAL IN THE 25TH DASAN FINANCE AWARDS HOSTED BY THE KOREA ECONOMIC DAILY (Jan. 5, 2016)

1

In an attempt to inherit and develop the spirit of practicality (Shil Sa Gu Shi: 實事求是) advocated by Dasan Cheong, Yak-Yong, the Dasan Finance Awards, which were launched in 1992, have been given to select financial institutions or persons in the pursuit of continuous development of the domestic financial market. The Grand Prize, Gold Medal Prize, Special Prize, etc. are given in six sectors including banking, insurance, securities, etc. We were honored to win the Gold Medal Prize in the insurance sector of the Dasan Finance Awards for the first time this year.

KB MAGIC CAR DIRECT RECEIVES WINNER, GRAND PRIX AWARD IN THE DIGITAL ADVERTISEMENT SECTOR OF THE 2015 & AWARD (Jan. 21, 2016)

1

KB Magic Car Direct received the Grand Prix in the digital media insurance sector of the 2015 & Award, which is one of the highly influential awards officially sponsored by the Ministry of Science, ICT and Future Planning and hosted by the Korea Digital Enterprise Association for the purpose of selecting the best through a fair and strict screening process among enterprises that lead high-tech digital media software development and services in the fields of websites, mobile web, digital advertisement marketing, smart media, digital images, and digital UI.

KB Insurance, which was LIG Insurance and became part of the KB Financial Group companies in June 2015, is currently focusing on collecting customers' opinions using a variety of channels such as its own website and mobile web, and social media including its blog, Facebook, Twitter, and Kakao Story.

'KB HOPE PLUS CHILDREN'S INSURANCE' AWARDED GRAND PRIZE IN THE INSURANCE FOR CHILDREN SECTOR OF THE 2016 CUSTOMER LOVING BRAND AWARDS FOR A FIFTH CONSECUTIVE YEAR (May 24, 2016)

5

The 2016 Customer Loving Brand Awards ceremony hosted by the Economist, the Joongang Ilbo and the Presidential Council on Nation Branding was held in the Grand Ballroom of Grand Hyatt Hotel.

The Customer Loving Brand Awards are given to brands that customers and experts select together as those which satisfy the expected value of customers with excellent quality and functions, and win customers' hearts as well as make a good impression. Kim Jae-Hyeon, the head of the long-term strategy headquarters, accepted the award on behalf of the company.

KB Hope plus Children's Insurance, which gave KB Insurance the honor of winning the prize for a fifth consecutive year, received high praise thanks to the fact that it strengthened the characteristics of public interest in a low birth rate era by providing customers with the various protections and benefits, and actively responded to the emerging market for customized insurance for children by developing new products such as Kid's Dental Protection, etc.

KB INSURANCE AWARDED COMPREHENSIVE GRAND PRIZE IN NON-LIFE INSURANCE SECTOR OF 2016 KOREA SERVICE GRAND PRIX FOR SECOND CONSECUTIVE YEAR (July 7, 2016)

7

The Korea Service Grand Prix is an event where a prize is given to those companies, institutions, entities and individuals that have achieved excellent results in building a service management system and deploying service-quality innovation activities in a spirit of customer appreciation.

KB Insurance has provided a variety of customer services in the pursuit of achieving the goal of becoming "the most preferred insurance company" with the realization of customer-oriented core values. In order to develop differentiated insurance products, we have searched for various ideas and tried to develop new products from the customer's perspective by comparing competing products and analyzing preferences by age group.

We have mainly released into the market products to protect consumers in insurance blind spots, to reflect social trends considering the elderly and those with a history of sickness, and to meet the needs of children caring for their parents.

KB INSURANCE AWARDED GRAND PRIZE IN BUSINESS INNOVATION IN THE IECO AWARD (July 11, 2016)

7

Our continuous improvement of customer satisfaction by providing top-notch Internet services gave us an opportunity to receive the Grand Prize in Business Innovation in the iEco Award, which means that our high level of convenience and innovation was recognized once again after the Grand Prize in the insurance sector was given in 2015.

The iEco Award, hosted by the i-Award Commission and managed by the Korea Internet Professional Association (KIPFA), is an event where the most innovative and excellent Internet services that contribute to the development of the Internet ecosystem in the sector of business, win-win, service, public service, technology, social contribution, and Internet standardization are selected and given a prize.

KB Insurance has improved customer convenience by providing a full range of financial services on mobile web, realizing responsive services optimized for various mobile devices (smartphone/tablet), adopting standard web technology for the first time in the industry, abolishing the use of Active X from the website and introducing a non-Active X solution, etc.

KB INSURANCE AWARDED GRAND PRIZE IN NON-LIFE INSURANCE SECTOR OF THE SIXTH KOREA SNS AWARD FOR A FOURTH CONSECUTIVE YEAR (Oct. 14, 2016)

10

KB Insurance received the Grand Prize in the 2015 Korea SNS Award co-hosted by the Korea Association for Social Contents Development and the Korea Herald Business. KB Insurance's SNS activities start with securing customer contact points through various channels including blogs that receive more than 5,000 daily average visitors, Facebook, Instagram, Twitter, Kakao Story and YouTube.

The most distinctive feature is that we serve as a professional medium. The "Insurance Weekly News" provides insights into insurance by delivering information on industry trends from an objective point of view, and the monthly "Common claim knowledge Quiz" is a web comic that introduces complicated compensation cases in everyday life with quizzes and answers, and was recognized as good quality content that contains all three benefits of "fun, participation and information."

Online and offline social contribution promotions in which customers participate are deemed to be a good example that combines all the positive elements of SNS, such as offline and online connections and customer participation in corporate social contribution activities.

KB INSURANCE AWARDED GRAND PRIZE IN THE ENTERPRISE SECTOR OF THE NINTH KOREA INTERNET COMMUNICATION AWARD FOR A FIFTH CONSECUTIVE YEAR (Nov. 23, 2016)

11

The Korea Internet Communication Award, which are sponsored by the Ministry of Science, ICT and Future Planning and the Korea Internet & Security Agency, has the highest authority in this field and selects prize winners with a customer satisfaction survey and professional committee evaluation with regard to SNS-centered and digital-based customer communication activities.

Winning the prize for a fifth consecutive year since 2012 allowed KB Insurance to position itself as a leading insurance company in the field of Internet communication. In particular, winning the Grand Prize in the enterprise sector for the first time this year is evidence of our excellence in the industry as well as all enterprises, while it has steadily won the Grand Prize in the non-life insurance sector every year.

KB Insurance, which has been delivering corporate messages through various channels, is constantly striving to include the most essential and basic function of communication, i.e., "participation", in contents.

KB INSURANCE WINS PRIZE IN ENTERPRISE SECTOR OF THE SEVENTH KOREA BLOG AWARDS FOR A SECOND CONSECUTIVE YEAR (Nov. 25, 2016)

11

KB Insurance won a prize in the enterprise sector of the 2016 Korea Blog Awards hosted by the Korea Blog Business Association under the Ministry of Culture, Sports and Tourism. The Korea Blog Awards, which celebrates its seventh anniversary this year, is an award ceremony for selecting a company or public organization that has been outstanding in using blogs to enhance its brand value and communicate with consumers.

KB Insurance won this prize accompanying the Contents Prize in the enterprise sector in 2015 after being highly evaluated for its steady activities, e.g., more than 5,500 daily average visits to its website and 1,800 or more cumulative contents.

The KB Insurance blog was launched in June 2011 and has faithfully performed its role as a special medium that not only introduces products but also communicates the company's news, and explains and shares information and common knowledge on finance, insurance and economics that seemed to be difficult.

CORPORATE SECTION

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CEO MESSAGE

It is certain we can show a steadily continuing managerial performance satisfactory to the name of KB this year. In January, we made a successful start with the announcement of actual performance that exceeded market consensus.

DEAR VALUED CUSTOMERS AND SHAREHOLDERS!

First of all, I would like to thank all our customers and shareholders for their unwavering interest in and affection for KB Insurance.

In 2016, we had to face a challenging business environment caused by a severe downturn in both domestic demand and exports on top of uncertainty about the world economy due to Brexit, Mr. Donald Trump's inauguration as U.S. president, a soaring year-end interest rate, etc.

Nevertheless, since our new start with the name KB Insurance in 2015, our executives and staff members have exerted their best efforts to show our shareholders and customers the changed appearance of the company.

In addition, by becoming a member of the KB Financial Group, we have laid a foundation internally to enhance competitiveness through synergies among the affiliated companies, and further raised the brand image as a professional financial institution externally.

As a result, we could complete a year in which we were able to visibly improve our management indicators and establish a foundation for better performance in the future.

We proudly say that this is a splendid glory that was achieved energetically by all executives and staff members who showed trust and patience despite the environmental difficulties they were facing as well as by active support of the KB Financial Group.

DEAR VALUED CUSTOMERS AND SHAREHOLDERS!

It is certain we can show a steadily continuing managerial performance satisfactory to the name of KB this year. In January, we made a successful start with the announcement of actual performance that exceeded market consensus.

Of course, insurance companies will face challenges in various areas this year as well, including the introduction of IFRS17 and the new RBC system. However, we will respond to such challenges, well-prepared to meet each individual need with a focus on basic strategies such as customer-centered management, a strengthened risk management system and cost structure innovation.

Cordially asking our customers and shareholders to give us unwavering affection and encouragement, and earnestly wishing their families continued happiness and good health, we remain yours truly.

Thank you

Chairman & CEO
Jong-Hee Yang

Yang, Jonghee

Board of Directors

KB Insurance's management innovation is led by a Board of Directors with a level of expertise and impartiality comparable to global standards. The BOD runs six sub-committees whose responsibilities include recommending new outside directors, overseeing the Company's audit, internal controls and risk management, and ensuring that the Company is managed in a manner that is transparent and efficient.

INSIDE DIRECTORS

Jong-Hee Yang

Jae-Keun Lee

OUTSIDE DIRECTORS

Yong-In Shin

Jae-Ho Shim

Jin-Hyun Park

Chang-Ki Kim

Corporate Governance

KB Insurance is committed to increasing its corporate value, developing a sound and transparent corporate environment, and ensuring through the operation of independent BOD and subcommittees that the rights and interests of all its stakeholders are enhanced and safeguarded at all times.

COMPOSITION AND OPERATION OF BOD

As of the end of March 2017, KB Insurance's BOD consists of four outside directors, One inside director, and one non-standing director. Its independence is maintained by outside directors making up a majority of its members. Its autonomy was further enhanced in 2010 when a Senior Outside Director system was adopted. Candidates for outside directorship are selected by the Outside Directors Recommendation Committee that takes into account such factors as the expertise, capacity for objectivity and fairness, and experience of candidates in fields that are relevant to the Company's operations. Committee-recommended candidates are appointed to the BOD through a majority vote at a general shareholders' meeting.

BOD COMMITTEES

The BOD operates four sub-committees: Audit, Risk Management, Outside Director Candidates Recommendation, and remuneration. Each of them deals with matters delegated by the BOD thorough and in-depth discussions.

• AUDIT COMMITTEE

The Audit Committee ensures the stability and transparency of the Company's management and must agree to any change intended to improve its governance. It does this by overseeing the Company's audit and internal control systems. This committee consists of three directors, including and three outside directors.

• RISK MANAGEMENT COMMITTEE

The Risk Management Committee establishes risk management systems that can identify, measure, monitor, and control various types of risks inherent in the Company's daily operations, including underwriting and asset management. It also reflects the results of its analyses in the Company's daily management and goals. It plays a key role in maintaining the overall health and stability of the Company. It is composed of four directors, including three outside ones.

• OUTSIDE DIRECTOR CANDIDATES RECOMMENDATION COMMITTEE

The Outside Director Candidates Recommendation Committee is responsible for suggesting ways of improving the Company's governance and enhancing the capabilities of the BOD by recommending the very best outside director candidates possible, based on their professional expertise and capacity for independence and impartiality. The committee consists of three directors, two of whom are outside directors to ensure its independence.

• REMUNERATION COMMITTEE

The Remuneration Committee oversees the Company's performance-based compensation system and ensures that the long and short-term performances of executive officers are fairly reflected in their remunerations. It consists of three directors, two of them being outside directors.

• AUDIT COMMITTEE CANDIDATE RECOMMENDATION COMMITTEE

Under the Act on Corporate Governance of Financial Companies, the Committee verifies the qualification of an auditor candidate and recommends him/her to the general shareholders' meeting. It consists of four outside directors.

• PRESIDENT CANDIDATE RECOMMENDATION COMMITTEE

Under the Act on Corporate Governance of Financial Companies, the Committee appraises a representative director candidate and recommends him/her to the board of directors. It consists of four outside directors.

COMPOSITION OF BOD COMMITTEES (AS OF MARCH 31, 2017)

: SAME AS ON MAY 16, 2017

Audit Committee	Risk management Committee	Outside directors Candiate recommendation Committee
Yong-In Shin(Chair)	Chang-Ki Kim(Chair)	Jin-Hyun Park(Chair)
Jae-Ho Shim	Yong-In Shin	Chang-Ki Kim
Chang-Ki Kim	Jae-Ho Shim	Jong-Hee Yang
	Jong-Hee Yang	

Remuneration Committee	Audit committee candidate recommendation committee	President candidate recommendation committee
Jae-Ho Shim(Chair)	Yong-In Shin(Chair)	Jae-Ho Shim(Chair)
Jin-Hyun Park	Jae-Ho Shim	Yong-In Shin
Jae-Keun Lee	Jin-Hyun Park	Jin-Hyun Park
	Chang-Ki Kim	Chang-Ki Kim

Vision & Strategy

VISION

"No.1 Customer preference insurance company"

CORE VALUES

Customer orientation, Lead change, Professional mindset, Transparency, Communication & Cooperation

MISSION

"Give relief & hope to customers"

Give relief & hope to customers for customer's stable life and business

REVIEW OF OPERATIONS

ENHANCED, DIFFERENTIATED COMPETITIVENESS THROUGH SYNERGIES AMONG AFFILIATED COMPANIES RECENTLY

We had to face a challenging business environment caused by a severe downturn in both domestic demand and exports on top of uncertainty about the world economy. Nevertheless, KB Insurance has enhanced competitiveness with a focus on basic strategies such as customer-centered management, a strengthened risk management system and cost structure innovation.

Commercial Insurance

FY 2016 INDUSTRY RESULTS

In FY 2016, commercial insurance sales amounted to KRW 5.6248 trillion, up 2.4% compared to the previous year. If we look at it by market, sales in the domestic market amounted to KRW 5.0907 trillion, up 2.6% compared to the previous year, while sales in overseas markets amounted KRW 534.1 billion, up 0.8% compared to the previous year.

On the other hand, the commercial insurance loss ratio in FY 2016 was recorded at 70.4%, an increase by 0.4%p compared to the previous year. The overall market loss ratio has been maintained at a level similar to the previous year thanks to the improved loss ratio in accident insurance, special insurance and overseas insurance, while the loss ratio in property and marine insurance has risen due to typhoons, earthquakes and a large number of insurance accidents.

• Market loss ratio by insurance type

(Unit: %, %p)

	Total	Property	Marine	Accident	Special	Overseas
FY 2016	70.4	52.7	74.9	84.5	60.4	85.3
(YoY)	(+0.4)	(+9.9)	(+6.4)	(-4.5)	(-3.3)	(-4.6)

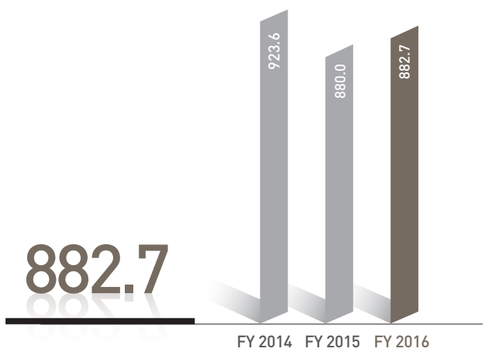
FY 2016 KB INSURANCE RESULT

In FY 2016, total sales of our company amounted to KRW 882.7 billion, up 0.3% compared to the previous year. This is attributable to the fact that sales in the domestic market amounted to KRW 827.7 billion, up 1.7% compared to the previous year that resulted from a structural improvement of the insurance portfolio, despite a decline of 16.7% YoY to KRW 55 billion in overseas market sales.

On the other hand, in FY 2016, our company's loss ratio fell to 73.7%, which was an improvement by 34.2%p compared to the previous year. This is attributable to a strategy to expand domestic commercial insurance to improve profitability and efforts to improve the structure in the insurance portfolio since 2014.

• Commercial insurance direct premiums written

(Unit: in KRW billions)



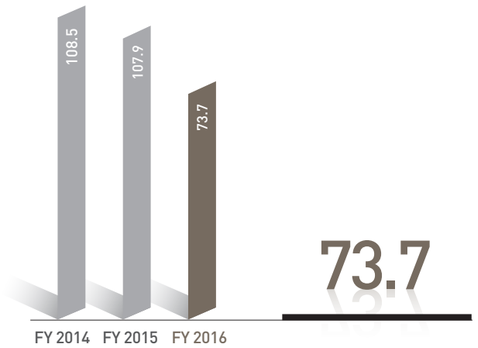
• Overall commercial insurance loss ratio for overseas markets

(Unit: %, %p)

	Total	Property	Marine	Accident	Special	Overseas
FY 2016	73.7	51.2	62.0	90.4	54.9	128.8
(YoY)	(-34.2)	(+2.5)	(-28.0)	(-1.3)	(-10.9)	(-183.7)

• Commercial insurance loss ratios

(Unit: %, %p)



FY 2017 INDUSTRY AND KB INSURANCE OUTLOOK

The commercial insurance market is expected to see stagnant growth going forward due to a slowdown in the conventional insurance market, mark-down pressure from intensified price competition, difficulties in securing demand from group companies, etc. In other words, we foresee that a profitability-oriented business model will be much more demanded in the market, pari passu, with the commercial insurance market that has already stepped into the maturity stage.

Therefore, in response to the outlook above, our company sets the FY 2017 strategic direction as "the establishment of a future core business model and infrastructure," and prepared key implementation strategies as follows:

First, we will deploy customer-specific strategies such as building products dedicated to the growth of small- and mid-sized insurance products that are the basis of commercial insurance profitability in terms of enhancement of future value and growth potential, and also prepare overseas business road maps by which we plan to move into overseas business step by step.

Second, we will establish a strategy to improve profitability by product in terms of a reduction of insurance risk, and also plan to elaborate the pricing model to lay a foundation for securing price adequacy and a differentiated hold strategy.

Third, we plan to pursue "process innovation," which focuses on underwriting and compensation business and system development to increase productivity and convenience on the sales front.

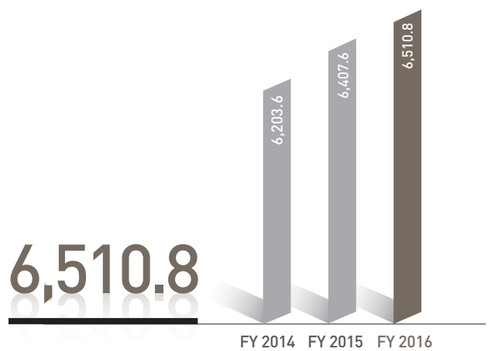
Long-term Insurance

FY 2016 INDUSTRY RESULT

In the long-term insurance market in FY 2016, which was affected by a big decrease in savings-type insurance sales due largely to the savings-type sales reduction policy of each company in preparation for IFRS 17, we earned direct premiums written in the amount of KRW 49.0847 trillion, up 1.9% compared to the previous year. For value-centered management, we focused on improvement of the new sales portfolio by expanding driver and property insurance with a low loss ratio, and reducing long-term care insurance sales, whose future risk is highly uncertain.

• **Commercial insurance direct premiums written**

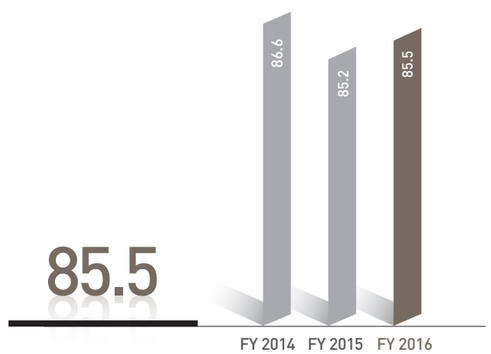
(Unit: in KRW billions)



Long-term insurance profit in FY 2016 amounted to KRW 413.1 billion, down 9.0% compared to the previous year, which was attributable to a deteriorated investment environment and resulted in a decrease in interest rate gains and risk rate gains, notwithstanding a substantially improved business expenses gain. The risk loss ratio was 87.6%, up 5.3%p compared to the previous year. This increment was attributable to the change of IBNR reserve standards for strengthening financial soundness management, and the loss amount affected by outbreak of MERS in 2015 and carried over to 2016.

• **Commercial insurance direct premiums written**

(Unit: %)



FY 2017 INDUSTRY AND KB INSURANCE OUTLOOK

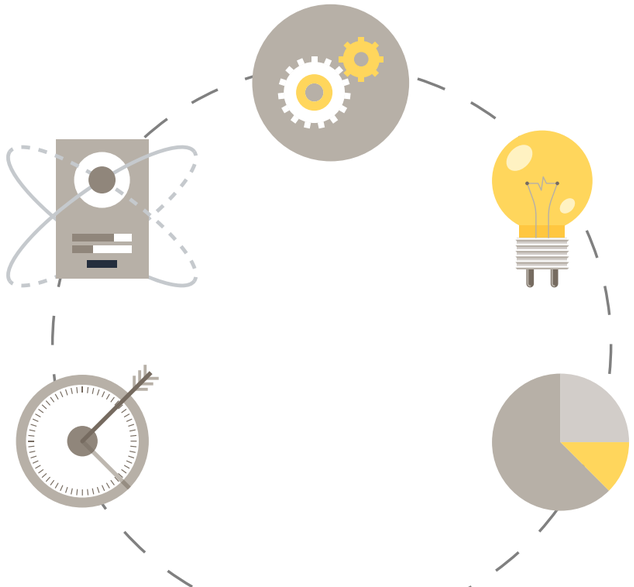
In FY 2016, the long-term insurance market is expected to grow slowly following the previous year due to a decline in savings-type sales and a slowdown in new sales growth affected by a matured protection-type insurance market. In addition, we foresee that competition in developing new products and efforts to acquire exclusive use rights thereon will be intensified, pari passu, with the continued financial authority's policy of liberalizing the development and pricing of new products. In addition to strengthening the profit-centered management trend in the industry for IFRS17, sales competition for low-risk products is expected to center on driver and property insurance, and the importance of underwriting capability will rise in line with the protection type-centered changes in the sales portfolio.

In FY 2017, our company will implement the following strategies to consolidate the profit-making structure of long-term insurance:

In response to the low-growth environment and expanded liberalization of product development, we will continue to strengthen the R&D function for new products. Through this, we will push forward with developing differentiated products that take into consideration population structure, channel change, etc. In order to maintain the sales growth trend centering on protection-type good sales, we will provide products and services that meet customer needs and channel-specific characteristics in a timely manner, and expand our exclusive organizations and strengthen our partnerships with non-exclusive organizations.

In order to thoroughly prepare for IFRS17, we will focus on the structural improvement of the insurance portfolio based on risk management and profitability. First, in order to manage insurance and interest rate risk, we will gradually shift our new sales portfolio from the previous age-based protection to renewable maturity-based protection. To this end, we are pushing forward with the development of new products with a focus on renewable maturity-based protection, the operation of a strategic products evaluation system, and promotion deployment. Second, we will continue to pursue risk rate calculation and management system elaboration along with the applicable rate management for securing appropriate prices. On the other hand, we are making efforts for digitalization such as automation of the mobile transmission of customer guidance letters, underwriting and compensation evaluation for efficient and cost-effective management.

Last but not least, we will set the first priority of all decisions on "customer value enhancement" and take one step closer to becoming "the most trusted and preferred insurance company" through customer-centered business process innovation by value chain.



Automobile Insurance

FY 2016 INDUSTRY RESULT

In the automobile insurance market in FY 2016, direct premiums written in the amount of KRW 16.3766 trillion, up 9.4% compared to the previous year, were earned thanks to a 3.9% increase in the number of registered automobiles and rises in premium rates, and the direct channel has grown to KRW 5.3877 trillion, up 15.7% compared to the previous year. The online composition ratio was 32.9%, up 1.8%p from 31.1% in the previous year. Our sales amounted to KRW 2.031 trillion, up 10.9% compared to the previous year, with an M/S of 12.4%, up 0.2% compared to the previous year. In particular, the direct CM channel earned premiums written in the amount of KRW 135.7 billion, and thereby has shown the fastest growth in sales behind company Samsung F&M.

• Automobile insurance market sales and our company's m/s progress

(Unit: in KRW billions, %)

	FY 2014	FY 2015	FY 2016
Market	13,524.4	14,964.0	16,376,6
G/R	5.2%	10.6%	9.4%
Composition online	30.0%	31.1%	32.9%
KB Insurance	1,713.1	1,831.8	2,031,0
G/R	8.4%	6.9%	10.9%
M/S	12.7%	12.2%	12.4%
Composition online	0.7%	1.0%	1.5%

In FY 2016, the automobile insurance loss ratio was 81.9%, an improvement of -6.4%p compared to the previous year (FY 2015: 88.3%), and the loss ratio gap compared to competitors was +0.2%p. On the basis of net loss ratio, excluding claim survey fees, the automobile insurance loss ratio was 75.0% and the loss ratio gap compared to competitors was 0.0%p.

• Present situation of our company's loss ratio records

(Unit: %, %p)

	FY 2014	FY 2015	FY 2016
Loss ratio	89.6%	88.3%	81.9%
Comparison of two companies	1.3%p	-0.3%p	0.2%p
Hyundai	88.1%	89.7%	81.8%
Dongbu	88.7%	87.5%	81.6%
Net Loss ratio	81.3%	80.4%	75.0%
Comparison of two companies	0.3%p	-1.3%p	0.0%p
Hyundai	80.5%	82.5%	74.7%
Dongbu	81.5%	80.8%	75.2%

FY 2017 INDUSTRY AND KB INSURANCE OUTLOOK

In FY 2016, a slight improvement of the loss ratio in the automobile insurance market is expected thanks to an insurance premium increase in the previous year that is earned this year. However, due to recent cost increases resulting from tightened standards for death alimony payment and nursing expenses payment, an increase in the number of expensive automobiles equipped with high technologies, etc., the profitability-oriented management trend seems to be maintained across the industry.

Therefore, our company will determine the top priority task of FY 2017 as the minimization of automobile operation loss and prepare key implementation strategies by each business area in order to achieve the goal of operation income in the amount of KRW -41 billion (KRW +22.2 billion compared to the previous year).

In the first place, a policy that differentiates the portfolio by channel will be pursued for the structural improvement of channels. As for face-to-face channels, favorable U/W will be executed for low loss ratio organizations from an organizational nurture and customer acquisition point of view, while for as GA channels, U/W against bad property will be more strictly conducted, and those subject to nonpayment of performance-based allowances will be increased so that profitability can be raised, and also so that bad properties can be reduced. Furthermore, for the purpose of promoting growth mainly in Internet-only products and good properties, and constructing a low-cost and high-efficiency system, we will push forward with upgrading the mobile and web platform and enhancing the renewal rate in direct channels.

Regarding price, we will construct the optimal price system by upgrading the rate calculation system. Contrary to the past when we adjusted rates based on loss ratio results, we will further refine our rate structure through future forecasts as well as loss ratio results. To this end, we will introduce the Emblem tool so that we can calculate a price model -→ check price structure by class -→ prioritize price adjustment.

In addition, we will also pursue the development of future growth-oriented products by analyzing new technologies of automobiles. In order to support direct channels and secure low loss ratio customers in their 30s through 50s, we will develop one-time products.

As for underwriting, we will pursue U/W elaboration using big data. In automobile insurance, we will accumulate information collected from the automobiles in our customer contact (emergency call) service, and thereby underwrite high-risk automobile insurance in a tight manner using the information and consequently save insurance payments. Across the company, we will pursue the prevention of inflow of persons with high risk of injury or illness by utilizing damage assessment information on injury and illness claim available from another sector (long-term). At the group level, we will utilize the credit information collected from KB Card and KB Kookmin Bank for advanced insurance underwriting. Moreover, we will expand the automated screening function by upgrading the U/W system. In order to enhance the convenience of mobile customers, we will develop a mobile-specific format and introduce customized guide services according to each customer's characteristics.

As for compensation, we will improve the efficiency of the workforce of the Smart Compensation Center introduced last year. In response to the rapidly growing number of insurance accidents in the metropolitan area, we will expand the Smart workforce in that area and expand the scope of its business. Experts in serious injury, insurance fraud, foreign automobile and new automobile technology will be selected and nurtured. We will introduce and gradually expand a low-depth Smart organizational completion process to improve the efficiency of the property insurance allocation process. In addition, we are pursuing the automation of claim compensation to manage the customer experience, and operating a TFT in order to discover areas for the automation of customer service centering on contact at an early stage of accident and property insurance compensation.

Direct Automobile Insurance

FY 2016 INDUSTRY RESULT

In FY 2016, sales in the direct automobile insurance market grew to KRW 5.3877 trillion, up 15.7%, and up 2.9% in market composition ratio compared to the previous year. Direct automobile insurance is sold through the TM channel, which means by phone, and CM channel, which means Internet and mobile. The CM channel market in FY 2016 grew rapidly to about KRW 2 trillion along with the introduction of the one company, three pricing system and online insurance supermarket (Insurance Damoa). As of 2016, it has been four years since our company entered the direct automobile insurance market in April 2013. Automobile insurance sales amounted to KRW 244.3 billion, up 66.5% compared to the previous year, with an M/S of 4.5%. Furthermore, sales by the CM channel, which was launched in the market for the first time in January 2016 with the construction of a CM-centered business model, amounted to KRW 135.7 billion, with an M/S of 7.1%, and thereby secured second place in the industry a year after entry.

• Direct automobile insurance market and our company's M/S trend

(Unit: in KRW billions, %)

	FY 2014	FY 2015	FY 2016
Market	13,524.4	14,967.1	16,376.6
G/R	5.2%	10.7%	9.4%
Direct Market	4,058.5	4,486.4	5,387.7
G/R	8.0%	10.5%	15.7%
Proportion	30.0%	30.0%	32.9%
CM Market	884.5	1,076.2	1,921.8
G/R	32.6%	21.7%	78.6%
Proportion(Total)	6.5%	7.2%	11.7%
Proportion(Direct)	21.8%	24.0%	35.7%
KB Insurance Direct	97.9	146.7	244.3
G/R	154.7%	49.8%	66.5%
M/S(Direct)	2.4%	3.2%	4.5%
KB Insurance CM	-	-	135.7
Proportion(Direct)			55.5%
M/S(CM)			7.1%

In terms of profit and loss, our company recorded an aggregate percentage of 112%, the result of adding up the loss ratio and working expense ratio, and recorded KRW -21.1 billion in operating income in direct automobile insurance. The loss ratio was recorded at 90.7%, up 4.3%p compared to the previous year, and work expenses were recorded at 21.3%, an improvement of 1.7% compared to the previous year. This shows that the loss ratio and work expense ratio are continuing to improve. This result is supposed to have been made under the influence of work expense rationalization thanks to an increase in CM-centered sales, and good customers secured with the development of products with various special discount arrangements.

• Our company's direct automobile insurance profit and loss trend

(Unit: in KRW billions, %)

	FY 2014	FY 2015	FY 2016	FY 2015
Direct premiums written	97.9	146.4	240.2	
Net earned premium	61.3	110.3	273.0	
Losses	60.6	104.7	245.7	
(Loss ratio)	98.9%	95.0%	90.7%	-4.3%
Business expenses	20.9	25.4	37.4	
(Business ratio)	34.1%	22.9%	21.3%	-1.7%
Operating income	-20.2	-19.8	-21.1	
(Combined ratio)	133.0%	117.9%	112.0%	-6.0%

FY 2017 OUTLOOK

The CM channel-centered competition in the automobile insurance market in FY 2016 is expected to be more intensified due to an increase in the needs of insurance subscriptions by mobile and Insurance Damoa's link to a portal. In addition, in the era of the fourth industrial revolution due to the development of digital technology, direct automobile insurance is facing new challenges. In these circumstances, KB Insurance will continue to pursue the stand-alone task for the direct channel following the previous year, and propel the following strategies for the provision of customer experience value.

First, we will strengthen digital marketing to enhance the core value of the brand. In 2016, we achieved meaningful results by ranking second in the CM channel industry thanks to active marketing activities with cable TV advertisements. In 2017, we will expand customer contact points linked to a digital platform with our differentiated digital marketing strategies, and focus on securing a solid market position as well as expanding sales volume by discovering and nurturing digital communication channels.

Second, we will strengthen the customer management process based on real-time data analysis. We will analyze customer behavior by using the existing Web Tracking System, and refine our business processes so that we can provide more personalized customer services. Through this, we will secure highly loyal customers, and thereby build up work expense rationalization and a stable profit model.

Finally, we are looking to boost customers' digital experience by upgrading the mobile platform. To this end, we will provide our customers with optimized convenience by adding the functions of mobile endorsement, contract inquiry, accident reception and guidance, etc. We aim to enhance customer satisfaction and improve the contract conclusion rate by continuously providing customer experience through mobile. Furthermore, we will maximize synergies among the affiliated companies of the KB Financial Group by expanding the linkages of various products and services using the mobile platform.

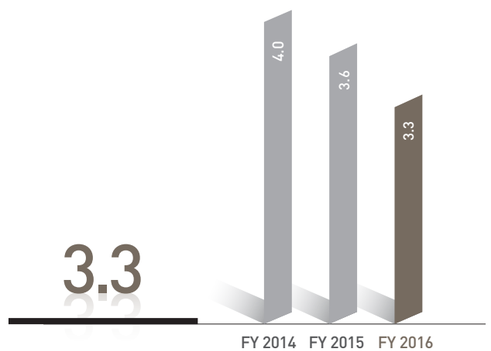
Asset Management

FY 2016 RESULTS

KB Insurance posted KRW 703 billion in investment income in FY 2016 under the circumstances of low growth of the global economy and continuously falling interest rates. The return on invested assets was recorded at 3.25%, down 0.30%p compared to FY 2015. Total invested assets in FY 2016 were KRW 23.2543 trillion, up 12.1% (KRW 2.5163 trillion) compared to FY 2015.

• **Gross investment yield**

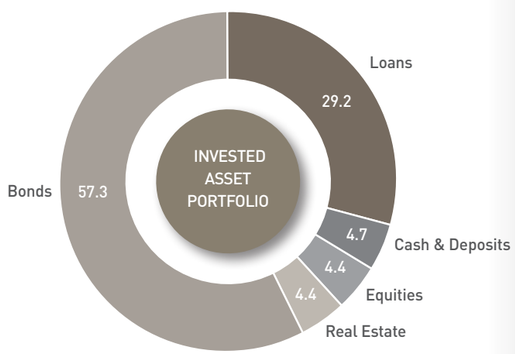
(Unit: %)



As for asset management in FY 2016, the expansion of asset duration by purchases of long-term securities and reduction of risk assets based on ALM contributed to a lower need for required capital. As a result, the proportion of interest-bearing assets to total assets in the asset management portfolio was 91.2%, up 1.6%p compared to FY 2015, and the proportion of risk assets to total assets was 8.8%, down 1.6%p compared to FY 2015 (stocks decreased by 1.0%p, and real estate decreased by 1.6%p). In addition, efforts were concentrated on increasing the rate of return on invested assets by substitutional investment and overseas investment. In 2016, the proportion of foreign currency-denominated assets to total assets was 18.7% (KRW 4.3533 trillion), up 3.1%p compared to FY 2015, and structured notes and SOC investment also continuously increased.

• **FY 2016 Invested Asset Portfolio**

(% of Total Invested Assets)



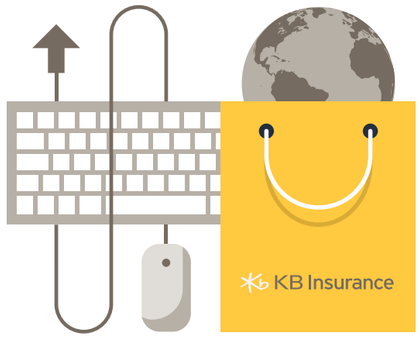
FY 2017 OUTLOOK

The recent environment for asset management has been facing increasing international market uncertainties arising from monetary policies differentiated by country, e.g., an increase in the U.S. interest rate, etc. with the trend of low growth of the global economy and low interest. In Korea, regulatory restrictions are increasing along with the introduction of IFRS 17 that requires asset portfolio management that reflects interest rate risk arising from liabilities' mark-to-market valuation and their volatility. To cope with such an environment, our company will enhance asset management competitiveness by sophisticating the asset management system based on process efficiency, system update, workforce capacity enhancement, etc.

Our company's main asset management goals are to manage interest rate fluctuation risk and credit risk at appropriate levels based on asset and liability management (ALM), to increase the rate of return by diversifying investments and securing future revenue sources, and to pursue a balanced asset portfolio based on the principles of strategic asset allocation.

Other steps to be taken include expanding the proportion of interest-bearing assets so as to ensure asset/liability matching and a stable income inflow, and for equities, enhancing portfolio profitability by responding flexibly to their market volatility. When managing limits for the asset portfolio and examining individual investment proposals, we will conform to the related process to enhance the stability of asset management, while we will explore diversified and balanced portfolio investment by choosing blue chip instruments based on an analysis of new substitutional investments that are found through our extensive investment network.

In FY 2017, we will exert our best efforts to optimize asset allocation by periodic adjustment of asset allocation strategy based on market forecasts so that profitability, stability and liquidity can be secured regardless of the changes in the external environment for investment.



KB INITIATIVES

Pursuit of Reorganization Aligned to 2017 Company-Wide Strategic Direction

In December 2016 we implemented a reorganization to efficiently carry out the three mid- to long-term strategic directions: customer-centered management, construction of risk- and value-centered management system and cost structure innovation.

First, in order to enhance customer satisfaction by strengthening service quality at customer contact points in line with the strategic direction of customer-centered management, we are in the process of improving service quality by establishing a new Claim headquarters under the long-term / automobile insurance division, and moving the customer support team from under the regional sales headquarters to under the customer support department of the customer division.
In order to build a customer-centered, company-wide CPC strategy driving system, we have strengthened the company-wide marketing function by establishing a new marketing planning department directly under the customer section.

Second, in order to pursue the construction of a risk- and value-centered management system we have established a new asset risk management department to carry out the risk limit management function from a company-wide perspective under the risk management headquarters, and thereby strengthened the company-wide risk management system.
In response to changes in the digital financial environment, we have constructed a company-wide digitalization pursuit system by establishing a new digital strategy department under the management strategy headquarters.

In addition, in order to streamline the management system following the introduction of IFRS 17, we have closed down the Sales compensation planing department and the value management infrastructure TFT under the Corporate management division, and integrated their function into the Corporate management department.

Third, reorganization for cost structure innovation has been implemented from the perspective of reinvestment of the resources secured by streamlining the business channel in order to secure future growth engines.
The retail sales division has undergone reorganization in the regional sales headquarters and the regional sales department, and an retail business innovation department has been established under the retail marketing department to promote changes in conventional channels.
The strategic sales division has established a new direct CM department under the direct sales headquarters to strengthen its sales competitiveness and expand the direct market, and the corporate sales division has established a new corporate marketing headquarters and Commercial lines product department and has undergone reorganization in the corporate sales headquarters and the sales department, and established a new SME sales department under the corporate marketing division to expand the position of small and medium enterprises in the market.

Risk Management

The RBC ratio in FY 2016 is 168.7% on a consolidated basis. The RBC ratio fell, affected by the elevated confidence level of credit risk (95%-→ 99%) and the reflection of marginal items. However, taking into consideration urgent circumstances such as the great likelihood of an additional fall in the interest rate due to expanded interest rate volatility following the U.S. presidential election, we have enhanced financial soundness through a rights offering of KRW 170.6 billion to the major shareholder. In order to respond to internal and external risks such as low growth, low interest rates, and the policy authorities' reinforcement of criteria for financial soundness, company-wide risk management was conducted centering on the risk management committee and organizations dedicated to risk management.

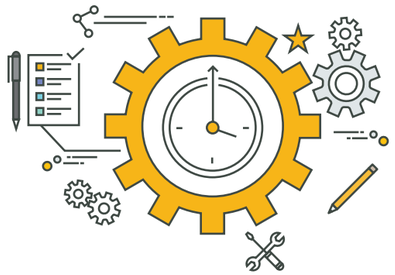
For practical company-wide risk management, we discuss risk management status and major issues every month in meetings of the Risk Management Committee that was established in 2015, and also discuss major individual issues such as new product development and the conclusion of large contracts in the Product Council on commercial/long-term/automobile/retirement pension, the Interest Council and the Asset Investment Council, so that the risk management system can be settled in the decision-making process across the company.

We have formulated three kinds of limit management that conform to RBC guidelines, internal model guidelines and Group EC guidelines, respectively, and these entered into effect in 2016. We have continuously monitored them so that extended credits are in conformity with the limit guidelines. For an improved RBC ratio, we have proposed annual profitability-against-risk goals by business line. Consultation with related sales divisions to encourage their achievement and monitoring has been carried out. As a result, overall improvement has been achieved.

In terms of asset risk management, we have set and operated limits for total exposure and country risk exposure to minimize potential loss. To manage the increasing demand for overseas investment and alternative investment due to the recent low interest trend, we have analyzed investments in atypical transactions systematically in terms of risk management based on related operational guidelines.

Regarding the risk measurement system, the reconstruction of the existing internal model methodology for credit risk measurement in conformity with the Basel basic internal rating method was completed, and the DFA system, which is an internal risk measurement model dedicated to commercial insurance (commercial and automobile), was constructed and has been utilized in making decisions on 2017 business-in-force / reinsurance strategy based on internal model-calculated risk amount, etc.

In consideration of changes in the international situation, mounting interest rate volatility, and other deteriorating market environment factors at home and abroad, we have conducted and systemized stress tests in various crisis scenarios so as to reinforce systems to respond to crisis situations.



FY 2017 OUTLOOK

In FY 2017, the need for risk management increased due to the emergence of new threats and opportunities such as the low growth trend, aging, expanded uncertainty, changes in the regulatory environment, and technological advancement, while the importance of risk management is expected to continuously increase in line with the need for establishing and implementing policies for securing financial soundness and enhancing profitability against risk triggered by the introduction of IFRS 17 and the planned introduction of the new Own Risk and Solvency Assessment system.

Regarding financial soundness, the debt duration calculated in conformity with the extended remaining maturity (from 20 years to 30 years) will be gradually phased in from 2017. Systematic improvement, resulting in a decline of the RBC ratio such as reflection of capital requirement to cover credit risk and market risk on retirement pension, etc. will be in progress. Accordingly, we will continue to improve our product structure in order to increase the asset duration and reduce the debt duration while we will manage the retirement pension risk pursuant to the guidelines reflecting the capital costs. Moreover, we will strengthen the risk management system and financial soundness management with the construction of the internal model-calculated own risk assessment system and the Own Risk and Solvency Assessment (ORSA) system to enhance profitability against risk and contribute to self-improvement of the RBC ratio.

To tightly manage the soundness of insurance liabilities preparing for introduction of IFRS17, we will construct a long-term insurance portfolio soundness management system for the purpose of maximization of new contract value by strictly analyzing the profitability of new products in advance, and establishing and applying guidelines for the collateral portfolio based on an analysis of business in force. In addition, we will elaborately analyze the business-in-force / reinsurance strategy using the DFA system reconstructed in 2016. In 2017, we will work earnestly on the calculation of appropriate amount of capital, reflection of capital cost and optimization of profitability against risk by reconstructing a long-term insurance internal model.

As for investment risks, we will execute preemptive management in preparation for a household debt crisis, such as reduction of mortgage loans, and elaborate the guidelines for and monitor operation of high-risk assets generated due to the expanded area for new investment such as alternative investments, and thereby advance the overall management process. In preparation for overseas investment, foreign exchange risk will be tightly controlled and the investment-related organization will be advanced. Furthermore, we will elaborate the strategic asset allocation process in order to proactively propose a strategic direction, and remodel market risk management so as to measure practical risk.

In line with the tightening regulations of the financial authorities, management decisions based on risk analysis will be reflected in the company's overall ordinary work process after exhaustive preparation is made for the introduction of ORSA, and the risk management process will continue to operate based on an internal model.

Ethical Management

KB Insurance's commitment to environmental protection and conservation includes developing eco-friendly products, participation in the Carbon Disclosure Project, building a greenhouse gas inventory system, and obtaining green building certificates.

PARTICIPATING IN THE CARBON DISCLOSURE PROJECT

We began participating in the CDP in 2010 as part of our continuing efforts to mitigate the effects of climate change. The CDP involves measuring and collecting data relating to climate change and making it available to the public.

BUILDING A GREENHOUSE GAS INVENTORY

Since November 2010 we have been operating a greenhouse gas inventory system, a first in Korea's non-life insurance industry. The data thus accumulated will help scientists to develop strategies and policies for emissions reduction, and will assist in tracking the progress of those policies. The information that we collect will also be made available to the public.

GREEN BUILDING CERTIFICATION

Green building certification has been a mandatory requirement for the construction of all of our structures since 2006. The KB Insurance Sacheon HRD Center, which was completed in 2011, boasts a number of energy-saving facilities, such as a ground source heat pump and photovoltaic power generation equipment. Our headquarter in Seoul, which was completed in July 2012, has been praised as an exemplary green building.

SOCIAL CONTRIBUTION

A COMPANY SHARING HOPE WITH PEOPLE

KB Insurance carries out volunteer activities with the KB Star Dream Volunteer Group to help the alienated and wounded in our society, acting as "a companion that nurtures life," and focuses on improving the welfare and quality of life of children and adolescents, who are our hope for the future, such as supporting children suffering from scoliosis and the children of traffic accident victims, and providing economic and financial education for multicultural children.

Caring and Sharing

This step KB Insurance takes is now small; however, it can be bigger and stronger with your affectionate advice and encouragement.

Hope Dream Camp for Multicultural Children

From February 3 through 5, KB Insurance hosted the KB Hope Dream Camp vacation camp program, inviting 50 children from multicultural families. The camp was held for two nights and three days at KB Injaenium in Suwon.

The KB Hope Dream Camp, held for a tenth consecutive year, is a free vacation camp that has been hosted by KB Insurance since 2011 to give emotional stability to children from multicultural families and to improve their learning ability. Fifteen university students who passed an interview conducted mentoring for the children in the camp.

The curriculum of KB Hope Dream Camp is structured so that basic economic principles can be learned by playing and with fun games such as financial board games' and a "DIY piggy bank".

"Hope Volunteer Relay Proclamation Ceremony" Celebrated

In 2016, the first activity of the Hope Volunteer Relay started with a warm, handmade dinner offered by the staff to the children living in Gangnam Dreamville.

Approximately 20 persons including Representative Director and CEO Yang, Jong-Hee as well as the in-house volunteer club "Haneulbaragi" and the KB Star Dream Volunteer Group participated in the day's activities in Gangnam Dreamville in Gaepo-dong, Seoul.
In this event, which started with the "Hope Volunteer Relay Proclamation Ceremony," dinner was prepared and offered by the staff members to the children based on the cooking know-how given by the Haneulbaragi, which has been sharing food with children in need for the past 10 years, and tableware sets for children were presented to the children.

Hope-Sharing Volunteer Activities Conducted in Rural Area

"KB Hope-Sharing Volunteer Activities in a Rural Area" were conducted in Jeongan Village in Jeungpyeong-gun, Chungcheongbuk-do.

Jeongan Village set up a sisterhood relationship with KB Insurance in 2012 along with the one-company, one-village campaign, and KB Insurance has continued to visit the village semiannually for volunteer activities.

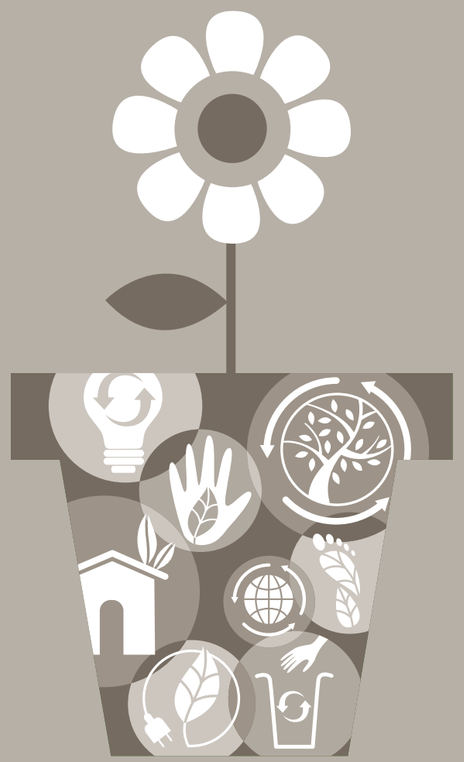
Approximately 40 participants from the KB Star Dream Volunteer Group planted sweet potato seedlings, which is the main crop of the village, put up wallpaper in the home for the elderly, painted the town's walls, etc.

11th Hope Bazaar Held

The "11th KB Hope Bazaar" was held at 10 Beautiful Stores, including ones in Anguk and Mok-dong.

The KB Hope Bazaar is a charity bazaar where items donated by employees and salespeople are sold by the Beautiful Store, and all proceeds go to help the unprivileged, and it is a representative sharing event in which KB Insurance families directly participate.

A total of 80,000 items were donated this year, and the sales proceeds will be used to support the living expenses for juveniles leaving child-care centers.



36th House of Hope Completion Ceremony Held

Last June, the "36th House of Hope Completion Ceremony" was held in Paju, Gyeonggi-do.

The Habitat for Humanity activity "Building Houses of Hope" conducted by the Green Umbrella Children's Fund and sponsored by KB Insurance, has built new, comfortable nests for children living in poor housing conditions since 2005.

Eight siblings, including the eldest daughter who entered a university this year, and a six-year-old youngest son who attends a nursery, have lived in a small, approximately 7 pyeong (23m2) temporary house. A '40 pyeong (132m2) House of Hope was presented to the family, which has a sick mother who is hard to move, a father taking care of the family and doing housework, a nine-year-old disabled girl, and her brothers so that they can grow, dream and hope in a comfortable residential environment.

Employees Visit Children Who Have Undergone Scoliosis Surgery Sponsored by KB Insurance

KB Insurance employees had a special time visiting Lee Su-Jeong, who underwent scoliosis correction surgery sponsored by KB Insurance that took six hours.
The warped spine caused difficulties in her daily life, but the surgery brought her back to normal life.
Every year since 2007, KB Insurance has selected 10 children to support with the "Medical Expenses Support Program for Children Suffering from Scoliosis." So far, a total of KRW 900 million has been donated, and 190 children could live a healthy life with hope.

KB Insurance Provides Firefighters with Mental and Physical Stability Room

KB Insurance opened the Mental and Physical Stability Room for 119 Firefighters in five locations: with the Ttukseom Water Rescue Team under 119 Special Rescue in Gwangjin-gu, Seoul, and in Bongcheon-dong, Gil-dong, Junggok-dong and Yeoksam-dong.
"In addition to the newly opened Mental and Physical Stability Room in the 119 Safety Center in Bongcheon-dong, Gwanak-gu, we will open a total of 10 Mental and Physical Stability Rooms for Firefighters' Rest in Seoul, including in Jamwon-dong, Yongdu-dong, Jamsil-dong, Samgye-dong, and the 119 Safety Center in Korea Aerospace University this year," an official said.

Baseball Player, Dae-ho Lee-invited Talk Concert

A talk concert with baseball player "Big Boy" Dae-ho Lee was held at the KB Art Hall in the headquarters building in Yeoksam-dong, Seoul to give dreams and hope to the children of traffic accident victims. This event was prepared for the purpose of providing support to the children, and is part of the "Children of Traffic Accident Victims Support Project" conducted by KB Insurance that has focused on automobile insurance.

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

RESPECTED TRUSTED ROFESSIONAL SAMIL

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of
KB Insurance Co., Ltd

We have audited the accompanying separate financial statements of KB Insurance Co., Ltd, which comprise the separate statement of financial position as of December 31, 2016 and 2015, and the statements of comprehensive income, changes in equity and cash flows for the years then ended and notes, including a summary of significant accounting policies and other explanatory information.

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

Auditors' Responsibility
Our responsibility is to express an opinion on these separate 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 separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate 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 separate financial statements present fairly, in all material respects, the separate financial position of KB Insurance Co., Ltd as of December 31, 2016 and 2015, and its separate financial performance and cash flows for the years then ended in accordance with Korean IFRS.
Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

Samil PricewaterhouseCoopers

March 8, 2017
Seoul, Korea

This report is effective as of March 8, 2017, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

SEPARATE STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

(In Korean won)	Note	2016	2015
Assets			
Cash and cash equivalents	4,5,7,29	₩ 778,017,535,270	₩ 689,212,179,922
Financial assets at fair value through profit or loss	4,5,8,13,29	977,399,510,834	711,193,310,444
Available-for-sale financial assets	4,5,9,22,29	9,608,828,077,435	8,560,438,459,053
Held-to-maturity financial assets	4,5,10,29	3,543,666,152,648	2,145,902,726,515
Loans	4,5,11,29	6,790,459,726,605	6,713,093,424,913
Other receivables	4,5,11,22,29	634,228,150,258	804,318,569,497
Investments in associates and subsidiaries	5,12	467,273,995,368	464,348,523,626
Derivative assets to hedge	4,5,13	6,144,554,921	11,177,788,388
Reinsurance assets	2,4,14	730,299,408,864	716,444,141,405
Investment property	15,17	329,443,652,301	333,736,147,564
Property and equipment	16,17	729,074,512,488	758,880,845,932
Intangible assets	18	36,452,046,409	39,837,602,730
Assets held-for-sale	19	4,048,353,452	128,830,000,000
Deferred acquisition costs	20	1,669,657,180,374	1,654,854,101,613
Current tax assets		-	2,315,313,716
Other assets	21	41,208,545,347	47,021,941,180
Separate account assets	47	3,006,009,542,068	2,722,036,877,851
Total assets		₩ 29,352,210,944,642	₩ 26,503,641,954,349
Liabilities			
Insurance liabilities	2,23	₩ 22,420,868,467,700	₩ 20,373,344,022,125
Financial liabilities at fair value through profit or loss	4,5,13,24	8,322,930,051	5,710,069,682
Other financial liabilities	4,5,25,29	511,373,174,395	508,617,343,793
Derivative liabilities to hedge	4,5,13	147,320,144,868	95,336,345,346
Provisions	26	62,643,117,557	47,277,649,541
Liability for defined benefit plans	27	91,251,887,659	103,185,174,484
Current tax liabilities		7,303,448,557	16,238,975,361
Deferred tax liabilities	43	244,595,807,110	245,678,950,622
Other liabilities	28	37,408,917,050	39,436,069,233
Separate account liabilities	47	3,385,531,301,980	2,991,801,912,071
Total liabilities		26,916,619,196,927	24,426,626,512,258
Equity			
Capital stock	30	33,250,000,000	30,000,000,000
Capital surplus	30	348,453,891,932	181,120,621,932
Accumulated other comprehensive income	30	204,060,030,320	288,488,526,524
Accumulated other comprehensive income of assets held for sale	30	314,081,671	-
Retained earnings	30	1,849,513,743,792	1,577,406,293,635
Total equity		2,435,591,747,715	2,077,015,442,091
Total liabilities and equity		₩ 29,352,210,944,642	₩ 26,503,641,954,349

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

SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 2016 and 2015

(In Korean won)	Note	2016	2015
Operating revenue			
Premium income	31	₩ 9,390,972,695,996	₩ 9,090,067,330,082
Reinsurance income	33	562,315,718,124	624,225,469,059
Gain from reimbursement	21	487,109,373	-
Recovered expenses	39	95,961,972,241	98,657,511,929
Interest income	6,34	626,464,515,829	600,871,101,559
Dividend income	6	127,413,219,224	85,335,445,082
Gain on valuation and disposal of securities	6,35	78,226,412,563	127,377,997,164
Gain on valuation and disposal of loans and other receivables	6,36	36,827,376	164,075,717
Gain on valuation and disposal of derivatives	6,13,37	54,310,068,972	23,319,899,533
Gain on valuation and disposal of Investments in subsidiaries	6,38	231,440,681	785,641,868
Foreign currency transaction gain	6	149,521,116,171	194,921,497,035
Gain on change in reinsurance assets	14	14,157,428,200	-
Other income	41	68,378,575,931	62,736,094,265
Separate account income	47	98,091,410,100	94,949,906,565
		11,266,568,510,781	11,003,411,969,858
Operating expenses			
Change in insurance liabilities	23	2,047,056,188,197	1,982,238,437,390
Insurance claims paid	32	3,394,084,164,403	3,179,183,844,734
Refund of surrender value and dividend expenses	32	2,132,892,831,335	2,291,491,508,146
Reinsurance expenses	33	853,368,995,276	858,685,047,955
Loss from reimbursement	21	-	784,223,510
Claim survey expenses paid	40	216,096,484,975	228,480,594,433
Amortization of deferred acquisition costs	20	655,886,837,183	654,047,419,224
Insurance operating expenses	40	1,034,144,679,745	972,071,929,029
Interest expense	6,34	288,133,908	517,589,033
Loss on valuation and disposal of securities	6,35	77,318,803,741	88,133,326,968
Loss on valuation and disposal of loans and other receivables	6,36	36,660,298,596	11,043,404,479
Loss on valuation and disposal of derivatives	6,13,37	162,730,250,468	169,918,646,988
Loss on investments on subsidiaries and associates	6,38	455,999,545	12,561,464,377
Foreign currency transaction loss	6	25,064,814,596	19,402,984,491
Administrative expenses for assets	40	52,031,027,035	77,478,692,032
Loss on changes of reinsurance assets	14	-	88,613,538,669
Administrative expenses for real estate		19,730,171,969	16,291,391,710
Other expenses	41	67,225,274,517	29,560,083,120
Separate account expenses	47	98,091,410,100	94,949,906,565
		₩ 10,873,126,365,589	₩ 10,775,454,032,853

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

(In Korean won)	Note	2016	2015
Operating income		₩ 393,442,145,192	227,957,937,005
Non-operating income (expense)			
Non-operating income	42	10,251,310,763	2,911,944,245
Non-operating expenses	42	9,888,191,364	4,540,081,623
		363,119,399	(1,628,137,378)
Profit before income tax		393,805,264,591	226,329,799,627
Income tax expense	43	98,025,575,950	52,593,887,345
Profit for the year	30	295,779,688,641	173,735,912,282
Other comprehensive income (loss)	30	₩ (83,786,653,017)	₩ 37,963,087,014
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit plans	27	₩ 10,475,335,573	₩ 2,083,738,989
Items that may be subsequently reclassified to profit or loss			
Unrealized net change in fair value of available-for-sale financial assets	6	(90,954,596,719)	45,294,296,102
Effective portion of changes in fair value of cash flow hedges	6	217,989,632	(661,144,807)
Unrealized net change in fair value of subsidiaries (structured entities)	6	(526,058,830)	(904,067,153)
Foreign currency translation differences for foreign operations		3,767,717,501	(4,404,534,573)
Other comprehensive income arising from separate account		(6,767,040,174)	(3,445,201,544)
		(83,786,653,017)	37,963,087,014
Total comprehensive income for the year		₩ 211,993,035,624	₩ 211,698,999,296
Earnings per share			
Basic earnings per share	44	₩ 4,927	₩ 3,298

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

SEPARATE STATEMENTS OF CHANGES IN EQUITY

Years ended December 31, 2016 and 2015

(In Korean won)	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
Balance at January 1, 2015	₩ 30,000,000,000	₩ 49,715,102,618	₩ (56,599,754,316)	₩ 250,525,439,510	₩1,429,525,291,853	₩1,703,166,079,665
Total comprehensive income (loss)						
Profit for the year	-	-	-	-	173,735,912,282	173,735,912,282
Net change in fair value of available-for-sale financial assets	-	-	-	45,294,296,102	-	45,294,296,102
Effective portion of changes in fair value of cash flow hedges	-	-	-	(661,144,807)	-	(661,144,807)
Net change in fair value of subsidiaries	-	-	-	(904,067,153)	-	(904,067,153)
Foreign currency translation differences for foreign operations	-	-	-	(4,404,534,573)	-	(4,404,534,573)
Other comprehensive income arising from separate account	-	-	-	(3,445,201,544)	-	(3,445,201,544)
Remeasurements of defined benefit plans	-	-	-	2,083,738,989	-	2,083,738,989
Transactions with owners of the Company						
Dividends to owners of the Company	-	-	-	-	(25,854,910,500)	(25,854,910,500)
Disposal of treasury stocks	-	131,405,519,314	56,599,754,316	-	-	188,005,273,630
Balance at December 31, 2015	₩ 30,000,000,000	₩ 181,120,621,932	₩ -	₩ 288,488,526,524	₩1,577,406,293,635	₩2,077,015,442,091

(In Korean won)	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Accumulated other comprehensive income of assets held for sale	Retained earnings	Total
Balance at January 1, 2016	₩ 30,000,000,000	₩ 181,120,621,932	₩ -	₩ 288,488,526,524	₩ -	₩1,577,406,293,635	₩2,077,015,442,091
Total comprehensive income (loss)							
Profit for the year	-	-	-	-	-	295,779,688,641	295,779,688,641
Net change in fair value of available-for-sale financial assets	-	-	-	(90,954,596,719)	-	-	(90,954,596,719)
Effective portion of changes in fair value of cash flow hedges	-	-	-	217,989,632	-	-	217,989,632
Net change in fair value of subsidiaries	-	-	-	(526,058,830)	-	-	(526,058,830)
Foreign currency translation differences for foreign operations	-	-	-	3,767,717,501	-	-	3,767,717,501
Other comprehensive income arising from separate account	-	-	-	(6,767,040,174)	-	-	(6,767,040,174)
Remeasurements of defined benefit plans	-	-	-	10,475,335,573	-	-	10,475,335,573
Transactions with owners of the Company							
Dividends to owners of the Company	-	-	-	-	-	(24,000,000,000)	(24,000,000,000)
Issuance of share capital	3,250,000,000	167,333,270,000	-	-	-	-	170,583,270,000
Others							
Transfer of revaluation of property and equipment	-	-	-	(641,843,187)	314,081,671	327,761,516	-
Balance at December 31, 2016	₩ 33,250,000,000	₩ 348,453,891,932	₩ -	₩ 204,060,030,320	₩ 314,081,671	₩1,849,513,743,792	₩2,435,591,747,715

SEPARATE STATEMENTS OF CASH FLOWS

Years ended December 31, 2016 and 2015

(In Korean won)	Note	2016	2015
Cash flows from operating activities			
Profit before income tax		₩ 393,805,264,591	₩ 226,329,799,627
Adjustments for:			
Interest income		(626,464,515,829)	(600,871,101,559)
Interest expense		288,133,908	517,589,033
Dividend income		(127,413,219,224)	(85,335,445,082)
Change in reinsurance assets		(14,157,428,200)	88,613,538,669
Net loss (gain) from reimbursement		(487,109,373)	784,223,510
Net gain on valuation and disposal of securities		(4,339,234,548)	(36,281,637,230)
Net loss on valuation of loans and other receivables		36,658,939,716	10,855,661,022
Net loss on valuation and disposal of derivatives		108,420,181,496	146,817,499,960
Net loss on Investments in subsidiaries		302,955,604	10,605,822,509
Net foreign currency transaction gain		(124,839,857,629)	(156,139,401,289)
Change in insurance liabilities		2,047,056,188,197	1,982,238,437,390
Amortization of deferred acquisition costs		655,886,837,183	654,047,419,224
Depreciation		38,885,083,381	40,033,664,609
Amortization of intangible assets		8,944,832,566	9,047,567,566
Impairment loss on intangible assets		129,137,866	1,316,607,582
Net gain on disposal of assets held for sale		(4,024,224,030)	-
Pension expense		30,493,559,879	38,656,364,655
Other expenses		56,550,186,671	18,108,650,985
		2,475,695,712,225	2,349,345,261,181
Changes in:			
Financial assets at fair value through profit or loss		(264,065,535,416)	(138,287,243,335)
Derivative assets to hedge		(6,993,751,040)	-
Loans		(144,882,696,685)	(465,176,187,993)
Other receivables		174,417,923,195	226,135,944,144
Deferred acquisition costs		(670,689,915,944)	(702,310,028,130)
Other assets		8,237,011,094	(7,883,687,037)
Separate account assets		(292,900,157,850)	(982,413,088,442)
Financial liabilities at fair value through profit or loss		-	1,645,988,656
Other financial liabilities		1,952,940,707	(808,778,012)
Derivative liabilities to hedge		-	2,064,481,756
Provisions		(41,237,074,037)	-
Liability for defined benefit plans		(28,607,142,783)	(16,189,406,941)
Other liabilities		8,260,460,609	(3,179,817,357)
Separate account liabilities		393,729,389,909	844,416,877,244
Foreign currency translation differences for foreign operations		4,538,135,620	5,260,153,391
		₩ (858,240,412,621)	₩ (1,236,724,792,056)

(In Korean won)	Note	2016	2015
Income tax paid		₩ (77,776,217,952)	₩ (54,237,788,546)
Interest received		619,549,885,194	615,696,066,822
Interest paid		(288,114,029)	(520,170,487)
Dividends received		121,102,397,626	79,869,063,470
Net cash inflow from operating activities		2,280,043,250,443	1,753,427,640,384
Cash flows from investing activities			
Proceeds from sale of available-for-sale financial assets		1,703,747,989,307	2,656,662,234,111
Acquisitions of available-for-sale financial assets		(2,717,059,289,638)	(3,875,546,009,112)
Proceeds from redemption of held-to-maturity financial assets		-	34,466,033,617
Acquisitions of held-to-maturity financial assets		(1,391,820,072,282)	(542,719,700,000)
Proceeds from sale of property and equipment		1,589,354,175	1,956,293,173
Acquisitions of property and equipment		(15,576,558,245)	(10,298,889,359)
Proceeds from sale of intangible assets		8,564,567,989	1,852,819,589
Acquisitions of intangible assets		(12,378,171,003)	(9,741,663,574)
Proceeds from sale of assets held for sale		125,170,507,000	-
Proceeds from sale of investments in associates and subsidiaries		84,602,138,885	205,261,424,391
Acquisitions of investments in associates and subsidiaries		(87,973,188,431)	(161,750,090,909)
Decrease in guarantee deposits		8,439,126,470	8,674,616,154
Increase in guarantee deposits		(5,976,001,980)	(5,157,835,800)
Cash inflows from hedging activities		25,211,244,713	6,075,714,987
Cash outflows from hedging activities		(64,015,071,607)	(98,459,615,177)
Net cash outflow from investing activities		(2,337,473,424,647)	(1,788,724,667,909)
Cash flows from financing activities			
Dividends paid		(24,000,000,000)	(25,854,910,500)
Increase in guarantee deposits from lessee		3,218,877,682	3,847,948,173
Decrease in guarantee deposits from lessee		(3,585,303,222)	(4,968,853,330)
Disposal of treasury stocks		-	229,957,959,216
Issuance of share capital		170,583,270,000	-
Net cash inflow from financing activities		146,216,844,460	202,982,143,559
Effect of exchange rate fluctuations on cash and cash equivalents		18,685,092	1,045,354,721
Net increase in cash and cash equivalents		88,805,355,348	168,730,470,755
Cash and cash equivalents at the beginning of the year		689,212,179,922	520,481,709,167
Cash and cash equivalents at the end of the year		₩ 778,017,535,270	₩ 689,212,179,922

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

1. The Company

KB Insurance Co., Ltd (the "Company") was incorporated on January 27, 1959, under the laws of the Republic of Korea to engage in non-life insurance related business and asset management for the business as the Company's main business model. As of December 31, 2016, the Company has 63 branch offices and 313 business offices. In June 1976, the Company went public on the Korea Stock Exchange. The Company's major shareholder is KB Financial Group Inc. (39.81%) as of December 31, 2016.

2. Significant Accounting Policies

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

2.1 Basis of Preparation

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

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

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

The preparation of the separate financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in note 3.

2.2 Changes in Accounting Policies and Disclosure

(1) New and amended standards adopted by the Company

The Company newly applied the following amended and enacted standards and interpretation for the annual period beginning on January 1, 2016, and this application does not have a material impact on the separate financial statements.

- Amendment to Korean IFRS 1001, Presentation of Financial Statements
- Amendment to Korean IFRS 1011, Construction Contracts, Korean IFRS 1037, Provisions, Contingent Liabilities and Contingent Assets and Interpretation 2115 Agreements for the Construction of Real Estate
- Amendment to Korean IFRS 1016, Property, plant and equipment, and Korean IFRS 1041, Agriculture and fishing: Productive plants
- Amendment to Korean IFRS 1016, Property, plant and equipment, and Korean IFRS 1038, Intangible assets: Amortization based on revenue
- Amendment to Korean IFRS 1110, Consolidated Financial Statements, Korean IFRS 1028, Investments in Associates and Joint Ventures and Korean IFRS 1112, Disclosure of Interests in Other Entities: Investment Entities: Applying the Consolidation Exception
- Amendment to Korean IFRS 1111, Joint Arrangements
- Annual improvements to Korean IFRS 2012-2014 Cycle

(2) New and amended standards not adopted by the Company

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

- Amendments to Korean IFRS 1007, Statement of Cash Flows

Amendments to Korean IFRS 1007 Statement of Cash flows requires to provide disclosures of changes in liabilities arising from cash flow and non-cash flow of financing activities separately. This amendment will be effective for annual periods beginning on or after January 1. 2017 with early adoption permitted. The Company does not expect the amendments to have a significant impact on the separate financial statements.

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

- 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. This amendment will be effective for annual periods beginning on or after January 1. 2017 with early adoption permitted. The Company does not expect the amendments to have a significant impact on the separate financial statements.

- Amendments to Korean IFRS 1102, Share-based Payment

Amendments to Korean IFRS 1102 clarifies accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. And also, clarifies that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. This amendment will be effective for annual periods beginning on or after January 1. 2018 with early adoption permitted. The Company does not expect the amendments to have a significant impact on the consolidated financial statements.

- Korean IFRS 1109, Financial Instruments

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

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

Korean IFRS 1109 Financial Instruments requires all financial assets to be classified and measured on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. A new impairment model, an expected credit loss model, is introduced and any subsequent changes in expected credit losses will be recognized in profit or loss. Also, hedge accounting rules amended to extend the hedging relationship, which consists only of eligible hedging instruments and hedged items, qualifies for hedge accounting.

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

Within the Company, Korean IFRS 1109 Task Force Team ('TFT') has been set up to prepare for implementation of Korean IFRS 1109 since October, 2015. The Company has been implementing Korean IFRS 1109 through three stages: Stage 1 (effect analysis), Stage 2 (design and implementation), and Stage 3 (parallel application). The Company is analyzing the financial impacts of Korean IFRS 1109 on its financial statements.

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

Meanwhile, the following areas are likely to be affected in general.

(a) Classification and Measurement of Financial Assets

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

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

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

[2] A designation at fair value through other comprehensive income is allowed only if the financial instrument is the equity investment that is not held for trading (irrevocable).

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

(b) Classification and Measurement of Financial Liabilities

Korean IFRS 1109 requires the amount of the change in the liability's fair value attributable to changes in the credit risk to be recognized in other comprehensive income, unless this treatment of the credit risk component creates or enlarges a measurement mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.
Under Korean IFRS 1039, all financial liabilities designated at fair value through profit or loss recognized their fair value movements in profit or loss. However, under Korean IFRS 1109, certain fair value movements will be recognized in other comprehensive income and as a result, profit or loss from fair value movements may decrease.

(c) Impairment: Financial Assets and Contract Assets

Korean IFRS 1109 sets out a new forward looking 'expected credit loss impairment model' which replaces the incurred loss model under Korean IFRS 1039 that impaired asset if there is objective evidence and applies to:

- Financial assets measured at amortized cost,
- Debt investments measured at fair value through other comprehensive income, and
- Certain loan commitments and financial guaranteed contracts.

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

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

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

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

(d) Hedge Accounting

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

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

- Korean IFRS 1115, Revenue from Contracts with Customers
Korean IFRS 1115 Revenue from Contracts with Customers issued on November 6, 2015 replaces Korean IFRS 1018 Revenue, Korean IFRS 1011 Construction Contracts, Interpretation 2031 Revenue-Barter Transactions Involving Advertising Services, Interpretation 2113 Customer Loyalty Programs, Interpretation 2115 Agreements for the Construction of Real Estate and Interpretation 2118 Transfers of assets from customers.
Korean IFRS 1018 and other, the current standard, provide revenue recognition criteria by type of transactions; such as, sales goods, the rendering of services, interest income, royalty income, dividend income, and construction contracts. However, Korean IFRS 1115, the new standard, is based on the principle that revenue is recognized when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue from contract with customer can be recognized:

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

This amendment is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted under Korea IFRS. The Company is analyzing financial impacts of Korean IFRS 1115 on its separate financial statements.

2.3 Associates and Subsidiaries

The financial statements of the Company are the separate financial statements in accordance with Korean IFRS 1027, which also allows the accounting of investments on associate and subsidiaries with cost method. However beneficiary certificates of subsidiaries are accounted for fair value method in accordance with Korean IFRS 1039. The dividends from associates and subsidiaries are recognized when the right to receive payments is established.

2.4 Foreign Currency Translation

(a) Functional and Presentation Currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which it operates ("the functional currency"). The functional currency of the Company is Korean won and the same currency is used on the financial statements.

(b) Transactions and Balances

Foreign currency transactions are recognized by the functional currency with the exchange rate on the date of transactions or the rate on the valuation date in case of revaluation. Foreign exchange gains and losses resulting from the settlement of such transactions or from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in net income.

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The foreign exchange difference from non-monetary financial assets and liabilities are considered as gains or losses from the change in fair value that the difference in equity instrument at fair value through profit or loss is included in net income and the difference of the instruments that are available-for-sale are recognized in other comprehensive income.

(c) Foreign Operations

If the functional currencies of the foreign operations are different from the Company's reporting currency, financial performance and financial position are translated by the following method. Unless the functional currency of the foreign operations is the currency under hyper-inflated economy, the assets and liabilities in the financial statements (including comparative financial statements) are translated at the closing rate at the end of the reporting period. Average exchange rate during the reporting period is applied on the revenues and expenses on the statements of comprehensive income and the foreign exchange differences from the translation are recognized as other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus they shall be expressed in the functional currency of the foreign operation and shall be translated in Korean won at the closing rate

On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, are reclassified from equity to profit or loss (as a reclassification adjustment) when the gain or loss on disposal is recognized. On the partial disposal of a foreign operations, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

2.5 Cash and Cash Equivalents

The Company classifies investment as cash equivalents only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date.

2.6 Financial Assets

(a) Recognition and Classification

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to-maturity financial assets. Regular way purchases and sales of financial assets are recognized on trade date.

Without separating embedded derivatives from host contracts, the Company designates the hybrid instruments as an item that is recognized at fair value through profit or loss. The financial assets that are accounted as above are foreign currency convertible bonds and derivatives-linked securities.

When a financial asset is recognized initially, the Company measures it at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. After initial recognition, available-for-sale financial assets and financial assets at fair value through profit or loss are measured at their fair values. Loans and receivables and held-to-maturity financial assets are measured at amortized cost using the effective interest method.

A gain or loss arising from a change in the fair value of a financial asset at fair value through profit or loss is recognized in profit or loss. A gain or loss on an available-for-sale financial asset is recognized in other comprehensive income, until the financial asset is derecognized or impaired. At that time, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

(b) Impairment

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets are impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The objective evidence of the impairments includes significant financial difficulty of the issuer or obligor and more than six-month overdue of principal or interest payment. A significant (30%) or prolonged (6 months) decline in the fair value of an available-for-sale equity instrument below its cost is also objective evidence of impairment.

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If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured and recognized in profit or loss through other operating income and expenses.

- Loans and Receivables

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

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

Individual assessment of impairment

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

Collective assessment of impairment

A methodology based on historical loss experience is used to estimate incurred loss on group of assets for collective assessment of impairment. Such methodology incorporates factors such as type of loans and borrowers, credit rating, size of portfolios, loss emergence period, recovery period and applies probability of incurred default on an individual or group of assets, nominal recovery rate of collaterals and loans and loss given default by type of recovery method. Also, historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for collective assessment of impairment are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment loss on loans reduces the carrying amount of the asset through use of an allowance account, and when a loan becomes uncollectable, it is written off against the related allowance account. If, loans and receivables that are previously written off are subsequently collected, the amount of allowance increases, and the adjustment is recognized in profit or loss.

- Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss (the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) that had been recognized in other comprehensive income is reclassified from equity to profit or loss as part of other operating income and expenses.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss.

- Held-to-maturity financial assets

If there is objective evidence that an impairment loss on held-to-maturity financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss on held-to-maturity financial assets is directly deducted from the carrying amount.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in profit or loss.

(c) Derecognition

If the Company transfers a financial asset, but retains substantially all the risks and rewards of ownership of the financial asset, for example, due to a right of recourse in the event of debtor's defaults, the Company continues to recognize the transferred asset in its entirely and recognize a financial liability for the consideration received.

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(d) Offsetting

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The legally enforceable right to set off is not contingent upon future events and is enforceable under any circumstances – under the normal course of business, the event of default or the event of solvency or bankruptcy.

2.7 Derivatives

All derivative financial instruments are measured at fair value. Gains or losses arising from a change in fair value are recognized as follows.

(a) Derivatives for hedge

The Company enters into numerous derivative financial instrument contracts such as currency forwards, interest rate swaps, currency swaps and others to manage its exposures to fluctuations in interest rates and currency exchange, amongst others. It designates certain derivatives as hedging instruments to hedge the risk of changes in fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge) and the risk of changes in cash flow of highly probable forecast transactions and the currency exchange risk at firm commitment (cash flow hedge).

At the inception of the hedge, there is formal designation and documentation of the hedging relationship and the risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

- Fair value hedge

If derivatives qualify for the fair value hedge, the gain or loss from remeasuring the hedging instrument at fair value and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss. Fair value change of hedging instruments and underlying assets (hedged instruments) are recognized under the same account in the statement of comprehensive incomes that the hedged instruments are included. Fair value hedge accounting is discontinued prospectively if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation. Once fair value hedge accounting is discontinued, the adjustment to the carrying amount of a hedged instrument is being amortized and recognized in profit or loss.

-Cash flow hedge

If derivatives are designated as a hedging instrument and is qualified for the cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss. Cash flow hedge accounting is discontinued prospectively if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation. In this case, the cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income remains separately in equity until the forecast transaction occurs. However, if he forecast transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

(b) Embedded derivatives

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

(c) Other derivatives

All derivatives but the ones designated as hedging instruments are measured at fair value. The gain or loss from remeasuring other derivatives is recognized in profit or loss.

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2.8 Non-current Assets Held-for-sales

Non-current assets (or disposal group) are classified as assets held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. The assets are measured at the lower of their carrying amount and fair value less costs to sell.

2.9 Property and Equipment

Property and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses. The historical cost includes any costs directly attributable to the acquisition of the property. Land is not depreciated whereas other property and equipment are depreciated over their estimated useful lives using the straight-line method. The depreciable amount of the assets is acquisition costs less residual values.

The estimated useful lives of the assets are as follows:

	Estimated useful lives
Buildings	20 ~ 40 years
Other properties and equipment	5 ~ 15 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at each financial year-end and, if expectations differ from previous estimates or if there has been a signigicant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the changes are accounted for as a change in an accounting estimate.

2.10 Government Grants

Government grants are recognized at fair value if, and only if there is a reasonable assurance that the Company will comply with the conditions attaching to them and the grants will be received. Government grants related to assets are deducted when the carrying value of the assets are calculated. Government grants related to income are deferred and deducted in reporting the related expense.

2.11 Intangible Assets

Intangible assets, except for goodwill are measured initially at cost and subsequently carried at their cost less accumulated amortization and accumulated impairment losses.

Internally developed software is sum of the expenditures incurred from the date when conditions of asset recognition is satisfied which include technical feasibility and future economic benefits. As it has indefinite useful life, membership is not amortized. The intangible assets with a finite useful life are amortized with straight-line method.

	Estimated useful lives
Software	5 years
R&D Costs	5 years

2.12 Investment Properties

Properties held to earn rentals or for capital appreciation are classified as investment properties. The properties are measured initially at their cost and carried at the cost less any accumulated depreciation and accumulated impairment losses. The investment properties except for land is depreciated over their estimated useful life, 20 ~ 40 years using the straight-line method.

2.13 Impairment of non-financial assets

Goodwill or the intangible assets with indefinite useful lives are tested for impairment at least annually. Other assets are tested for impairment when there is any indication that an asset may be impaired. An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount which is the higher of its fair value less costs of disposal and its value in use. The Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, a reversal of an impairment loss for an asset other than goodwill is recognized in profit or loss.

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2.14 Financial Liabilities

(a) Classification and measurement

The Company's financial liabilities at fair value through profit or loss are financial liabilities held for trading. Financial liabilities incurred principally for the purpose of repurchasing in the near term is classified as the trading liabilities. In addition, derivatives which are not designated for hedging or the ones separated from financial instruments are classified as financial liabilities at fair value through profit or loss.

The Company classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and presents as 'other financial liabilities' in the statement of financial position.

(b) Derecognition

Financial liabilities are derecognized from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired or when the terms of an existing financial liability are substantially modified.

2.15 Provisions

Provisions are measured at present value of the best estimate of the expenditure required to settle the present obligation. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognized as interest expense.

2.16 Current and Deferred Tax

The tax expense for the period consists of current and deferred tax. Tax is recognized and included in profit or loss for the period in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. The tax expense is measured based on the tax laws that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates tax policies that are applied in tax returns to reflect changes in tax interpretation by the taxation authorities. The Company measures current income tax at the amount expected to be paid to the taxation authorities.

Deferred tax is recognized for temporary differences which is the differences between the carrying amount of an asset or liability and its tax base. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects to recover or settle the carrying amount of its assets and liabilities. However, deferred tax assets and liabilities are not recognized if they arise from the initial recognition of an asset or liability in a transaction that is not business combination and at the time of the transaction, affects neither accounting profit nor taxable profit or loss. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax liability is recognized for taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, deferred tax asset is recognized for deductible temporary differences arising from such investments to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset if, and only if, the Company has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current 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.

2.17 Employee Compensation and Benefits

(a) Post-employment benefits

The Company has both defined contribution and defined benefit plans. A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity. The contributions are recognized as employee benefit expense when an employee has rendered service.

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A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Typically defined benefit plans define an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the separate statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds whose term is consistent with the estimated term of the post-employment obligation. The remeasurements of the net defined benefit liability are recognized in other comprehensive income.

If any plan amendments, curtailments, or settlements occur, past service costs or any gains or losses on settlement are recognized on profit or loss.

(b) Share-based payments

The company enters into share-based payments that provide stock grant to the directors and when the payments are exercised, the Company has the choice of whether it settles the transaction in cash or by issuing equity instruments.

The Company measures the services acquired and the liability incurred at the fair value of the liability and recognizes as share-based payments expenses and accrued expenses. Until the liability is settled, the Company remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

2.18 Revenue and Expense Recognition

The Company recognizes revenue when the amounts can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company and specific requirements on the activities of the Company as below are satisfied. Estimates are based on historical experience such as types of clients and transactions and terms of transactions.

(a) Premium income

It is on insurance fee collection dates when the insurance revenue is recognized. However, insurance policies whose initial payments or full payment (single premium policies) have not been made because of deferral of the premium payment are recognized as revenue on the financial year that their inception dates are in. The premiums that are received but its collection date has not come, are accounted as premium in suspense.

(b) Interest revenue and expense

Interest income and expense are recognized using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability, and of allocating the interest income or interest expense over the relevant period. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instruments, the Company uses the contractual cash flows over the full contractual term of the financial instrument. Interest on impaired financial assets is recognized using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

(c) Dividend Income

Dividend income is recognized in profit or loss when the Company's right to receive payment is established.

2.19 Leases

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases where all the risks and rewards of ownership are not transferred to the Company, as the lessee, are classified as operating leases. Lease payments under operating leases are recognized as expenses on a straight-line basis over the lease term.

Leases where the Company, as the lessee, has substantially all the risks and rewards of ownership are classified as finance leases and recognized as lease assets and liabilities at the lower of the fair value of the leased property and the present value of the minimum lease payments each determined at the inception of the lease.

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When the Company is the lessor, a lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership at the inception of the lease. A lease other than a finance lease is classified as an operating lease. Lease income from operating leases is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred by the lessor in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

2.20 Insurance Contracts

The Company recognizes a contract as an insurance contract if the contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

The Company assesses insurance risk of an insurance product using a representative contract. The claims paid when the insured event is occurred and the benefit paid when the insured event is not occurred is considered. If a contract is exposed to financial risk without significant insurance risk, the contract is classified as an investment contract. A contract that initially qualified as an insurance contract remains to be classified as an insurance contract until all rights and obligations are extinguished or expired.

The Company applies Korean IFRS 1104 'Insurance Contracts' for investment contracts with discretionary participation features. Investment contracts with no discretionary participation features follow Korean IFRS 1039 'Financial Instruments: Recognition and Measurement'.

2.21 Insurance Liabilities

In accordance with the Regulation on Supervision of Insurance Businesses (RSIB), the Company is required to maintain policy reserves for insurance claims and policyholders' dividends, as determined by the RSIB.

(a) Long-term insurance premium reserve

The Company maintains reserves for the portions of premiums (and investment income on such portions), which are refundable to policyholders upon maturity and amounts refundable for policy cancellations under long-term deposit-type insurance.

(b) Reserve for outstanding claims

The reserve for outstanding claims is based on the accumulation of estimated losses reported (estimated losses for claims, cash surrender values or policyholders' dividends, which are in dispute or in litigation, and estimated losses for claims fixed but not settled) and IBNR (incurred but not reported) prior to the end of the reporting period incurred from the direct business written by the Company and estimated losses received from ceding companies.

(c) Unearned premium reserve

The Company is required to maintain an unearned premium reserve at amounts determined based on lines of insurance and types of policies.

(d) Reserve for participating policyholders' dividends

The Company is required to maintain a reserve for participating policyholders' dividends under regulations approved by the Ministry of Strategy and Finance.

(e) Excess participating policyholder dividend reserve

Pursuant to relevant laws and contracts, the Company may provide an excess participating policyholder dividend reserve in accordance with the operating results of related insurance products. The reserve may be used to pay participating policyholder dividends or additional dividends.

(f) Reserve for compensation for losses on dividend-paying insurance contracts

The Company maintains a reserve for compensation for losses on dividend-paying insurance contracts by accumulating a part of policyholders' shares of profits from the dividend-paying insurance contracts within the limit determined by the Financial Services Commission.

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2.22 Insurance Liability Adequacy Test

The Company assesses whether its recognized insurance liabilities are adequate in regard to all contracts that apply Korean IFRS 1104. The test considers current estimates of all contractual cash flows, and of related cash flows such as claims handling costs, as well as cash flows resulting from embedded options and guarantees. If the test shows that the liability is inadequate, the Company increases the carrying amount of the relevant insurance liabilities by adding the exact amount of the entire deficiency.

When assessing the adequacy of long-term insurance liabilities, estimated future cash flows are discounted at future investment margins and, in case of general and automobile insurance, no discount is applied. For the premiums reserve and unearned premiums reserves, a liability adequacy test considers possible claims in the future, insurance operating expenses, operating premiums and other future cash flows. For claim reserves, a liability adequacy test considers the trend of claims payment to assess the adequacy of individual estimated claims.

2.23 Claims handling expenses

Claims handling expenses are costs related to the processing and payment of accidents covered by insurance. At the end of each reporting period, based on contracts with reasons for payment, such as claims, amount expected to arise in the future is earned as claims adjustment reserves (included in reserve for outstanding claims).

2.24 Compensation receivables

Of the amounts paid for claims during the year, amounts recoverable by exercising compensation and other rights or through disposal of secured assets acquired in the resolution of accidents are accounted for as compensation receivables and deducted directly from insurance reserves in the accompanying separate statements of financial position. Compensation receivables are calculated by multiplying the average recovery ratio (recovery amount/net claims) for the three years before the end of the reporting period and the amount of net claims for the period of one year prior to the end of the reporting period.

2.25 Embedded options and guarantees

A certain insurance contracts include embedded options and guarantees such as minimum guarantees. The Company considers those options and guarantees in the liability adequacy test.

2.26 Discretionary participating features

The Company does not recognize the guaranteed element separately from the discretionary participation feature of insurance and investment contracts. It classifies the whole contract as a liability, applying the liability adequacy test.

2.27 Deferred acquisition costs

Acquisition costs arising from personal pension insurances contracts and long-duration contracts that are made after October 1, 2003 are deferred and evenly amortized over the term of premium payment. When the premium payment period is more than seven years, the acquisition cost is deferred and evenly amortized over seven years. In case of cancellation, unamortized balance is entirely amortized during the fiscal year it was cancelled (on the day lapsed when the insurance contract has been lapsed before the cancellation).

2.28 Reinsurance contracts

The Company does not offset the following:
- Reinsurance assets against the related insurance liabilities
- Income or expense from reinsurance contracts against the expense or income from the related insurance contracts

If reinsurance assets are impaired, the Company reduces their carrying amounts accordingly and recognizes that impairment loss in profit or loss.

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2.29 Separate account

In accordance with Article 108 of the Insurance Business Act and the Regulation on Supervision of Insurance Businesses, the Company is required to maintain separate accounts on the statements of financial position for the assets and liabilities related to corporate pension policies from the other insurance policies. Assets and liabilities separately administered from the general account in the asset management and income distribution are deemed assets and liabilities in segmented reporting. These accounts are presented together as separate account assets (liabilities) in the statements of financial position. Operating losses incurred from separate accounts are recovered by charging the dividend reserves for policyholders' income and any remaining unrecovered loss is charged to shareholders' equity.

2.30 Emergency risk reserve

In order to prevent the Company from a huge loss due to extraordinary risk, an amount not less than 35% and not more than 100% of the amount multiplied by standard rates of accumulation and earned premium for general and automobile insurance is accumulated in retained earnings as an emergency risk reserve by types of insurance until reaching the greater of 50% of earned premiums (automobile – 40%, guarantee – 150%) of the current or the previous financial year.

In addition, where an earned risk loss rate (referring to the ratio dividing the amount of loss incurred by earned risk premium) by types of insurance exceeds a certain ratio (fire - 120%, marine automobile casualty - 110%, guarantee - 140%, reinsurance assumed and overseas direct insurance - 80%) and insurance operating losses are incurred, emergency risk reserves are transferred to unappropriated retained earnings within the extent of such exceeding amount. Meanwhile, when the Company accumulates emergency risk reserves, it applies rates limited between 35% and 100% in consideration of an earned risk loss rate.

2.31 Regulatory reserve for credit loss

Where the accumulated amount of allowances for loan losses and allowances for other receivables losses at the end of the reporting period (including a quarterly closing) is less than amounts required by the Financial Supervisory Service (the "FSS"), the Company accumulates such balance as a regulatory reserve for credit loss. When there is an unappropriated deficit, the reserve is accumulated from the time when the unappropriated deficit is appropriated, and where the existing reserve accumulated exceeds the reserve that should be accumulated at the end of the period, such exceeding amount may be reversed.

2.32 Approval of Issuance of the Financial Statements

The issuance of the Company's separate financial statements as of and for the year ended December 31, 2016 was approved by the Board of Directors on February 1, 2017, which is subject to change with approval of shareholders at the annual shareholders' meeting.

3. Significant Accounting Estimates and Assumptions

The Company assumes and estimates about its future events. Assumptions and estimates are assessed regularly given the future events reasonably foreseen by past experience and current situation. The estimates may be different from actual results. The assumptions and estimations that may affect asset and liability adjustments on the next financial year are as follows.

(a) Income tax expenses

Income tax expenses are determined by tax code of various countries and the interpretation of taxation authorities, so it is uncertain to figure out exact tax effects.

By the reflux taxes on corporate undistributed profits, for three years from 2015, if the Company does not spend certain amount of its taxable incomes as designated, such as on investment, salary increase and dividends etc., more income tax would be imposed. Therefore, it is needed to reflect the reflux tax effects in calculating current income tax expenses and deferred tax expenses. Because of the complexity to figure out each year's investment, salary increase and dividends, the income tax expenses for those three years are more likely to be uncertain.

(b) Fair value of financial instruments

In principles, fair values of financial instruments that does not have active markets are determined by valuation models. The Company choose an appropriate model and evaluate assumptions used at the end of each reporting period.

(c) Liability for defined benefit plans

Present value of liability for defined benefit plans is influenced by various factors, especially discount rate used by actuarial method.

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4. Financial risk management

4-1. Overview of risk management

(1) Risk management policy and strategy

The financial risks that the Company is exposed to are insurance risk, market risk, credit risk, liquidity risk and others. The Company, in order to counteract efficiently, in fast-changing financial environment, against inner and outer risk factors, manages risks under the limit through recognizing and measuring numeral risks immediately and accurately. The Company also manages to maximize profit compared to risks. In cases of developing insurance instruments and takeovers, the Company establishes strategies in consideration of risks and manages the assets and liabilities in order to maximize the value of the Company through the most adequate financial structures. Moreover, the Company establishes and manages combined risk limit to manage the risks of the Company to be maintained in adequate level in accordance with the available assets of the Company, to prevent holding too many risks. The Company also monitors risks regularly through measurement and ranks, in need of recognizing and measuring risks accurately, and establishes and exercises adequate reactions when needed.

(2) Risk management process

Risk management procedures of the Company are as follows:

- Risk Identification: The Company analyzes the major process of business operation and identifies possible risks. Financial risk, especially, is divided into insurance risk, interest risk, credit risk, liquidity risk and market risk and is considered as major risk.
- Risk measuring: The Company quantifies and measures the amount of insurance risk, interest risk, credit risk and market risk.
- Risk monitoring and controlling: In order to control total risk under available assets, the Company establishes adequate risk limit and monitors whether the limit is excessed. Moreover, the Company establishes and operates pre- and post-management system for major decisions.
- Risk reporting: The Company regularly reports the outcome of the monitoring of risk factors and the treatment to the Risk Management Committee and management.

(3)Evaluation of internal capital adequacy and its management procedure

The Company manages its internal capital adequacy with an internal model and standard model. Market risk measurement system (on 2002), interest risk measurement system (on 2004) and credit risk and insurance risk measurement system (on 2005) was established. By the reestablishment of market/credit risk measurement (on 2013), and interest risk measurement system (on 2014), the internal model is sophisticated. The risk of internal model is always monitored and risk of the Company is managed with the maximum loss criteria (Reliability 99%, Credit risk 99.5%). Also, to maintain an appropriate solvency margin, the Company manages risk limits that are calculated using the RBC method and approved by the Risk Management Committee and the trial test of risk limit management by the internal model has been in use since late 2013. Through all these process, even though unexpected loss occurs, the management process of solvency margin is reinforced to be maintained at a certain level.

(4) Board of Directors (Risk Management Committee) and structure and function of risk management organization

The Risk Management Committee makes decisions in regard to risk management and is consisted of five members including three of independent directors. Regular meetings are held quarterly and if necessary, temporary meetings are held. According to the risk management committee rules, the main contents of approval and reporting are as follows:

i) Resolutions
- Basic policy and strategy of risk management that coincides with the management strategies
- Decision on the level of risk that insurers can handle
- Approval of adequate investment and loss limit
- Establishment and revision of risk management criteria (such as risk management regulations)

ii) Deliberations
- New or additional homogeneous investment that exceeds 1% equity of recent financial year
- Homogeneous investment on non-public company's share that exceeds 1% equity of recent financial year
- Funding to establish a subsidiary

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iii) Reporting
- Entire risk status and measures
- Insurance product and investment product that include newly established risks
- Analysis in cases of crisis
- Advance and evacuation of business

The Risk Management Council is established in order to exercise the operation of risk management policy that is decided by the Risk Management Committee. Moreover, as an organization that practically supports the Risk Management Committee and the Risk Management Council, the risk management department, known as 'Risk Management Team', is independently operating on its own and carries out the following roles.

- Supervision of risk management such as calculation and distribution of assets at risk and management of limits
- Operating detailed policies, procedure and work process of risk management
- Report main points of risk management to the Risk Management Committee, Risk Management Council and the Company management
- Development and operation of adequate system to manage risk
- Development and operation of risk management system

(5) Activities for establishing risk management framework

In order to follow the process of risk identification, measuring, monitoring, controlling and reporting, the Company establishes risk management system, prepares 'risk management regulation' and 'Enforcement rule of risk management regulation' and operates Investment Review Board, Credit Review Committee, General Insurance Product Acceptance Committee, Long-term Product Committee and other committees in order to manage risk associated with important decision making. The risks that the Company has to manage are classified according to the division in which they occur; into insurance risk, asset management risk, ALM risk and operational risk and are differentiated as follows:

- Insurance risk: insurance price risk, reserves risk
- ALM risk: interest rate risk, liquidity risk
- Asset management risk: market risk, credit risk
- Operational risk: strategy, law, computing, reputation, fraud and other office related risks

In order to measure individual risk, the Company calculates market risks, credit risk, interest rate risk and insurance risks using RBC method on a quarterly basis. By comparing the result of risk measurement in the system with limit and monitoring the result, when the result exceeds the limit, the measured risks are reduced within a certain deadline by the amount the result exceeding the limit. In addition, after monitoring the status of the risk, the result is reported to the Risk Management Committee and if necessary, countermeasures are established and carried out.

4-2. Insurance risk

(1) Overview

Insurance risk is the risk that arises from a primary operation of insurance companies that is associated with acceptance of insurance contract and payment of claims, and is classified as the insurance price risk and the reserves risk. The insurance price risk is the risk of loss that might occur when the actual risk exceeds the expected risk rate or expected insurance operating expenses ratios in calculation of premiums. It is the risk of loss that arises from differences between actual payment of claims and premiums received from policyholders. The reserves risk is the risk that arises due to a deficit in reserves at the date of assessment, making the Company unable to cover the actual claims payment in the future.

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(2) Purposes, policies and procedures to manage risk arising from insurance contracts

The risks associated with insurance contract that the Company faces are the insurance actuarial risk and the acceptance risk. Each risk occurs due to insurance contract's pricing and conditions of acceptance. In order to minimize acceptance risk, the Company establishes guidelines and procedure for acceptance and out lines specific conditions for acceptance by product. In addition, expected risk level at the date of pricing is compared with actual risk of contracts after acceptance and the interest rate is adjusted accordingly, conditions of sale is changed, sale of goods is interrupted and other measures are taken in order to reduce insurance actuarial risk. The Company has a committee to discuss status of product acceptance risk and interest rate policy. The committee decides important matters to set the processes that allow minimizing the insurance actuarial risk, the acceptance risk and other business related risk.

In addition, according to reinsurance operating standards, the Company establishes an operating strategy of reinsurance for large claims expense due to unexpected catastrophic events. The Company supports so that policyholders are safe and the Company's stable profit can be achieved. For the long-term goal, the Company manages risk at a comprehensive level to keep its value at the maximum

The Company's entire risk is calculated by using RBC method. The Company sets the risk appetite limits in order that the calculated risk level is maintained at an appropriate level compared to available capital. Portfolio of assets and products are monitored to improve profit compared to risk.

(3) Exposure to insurance price risk

According to RBC standard, exposure to insurance price risk is defined as net written premiums for prior 1 year that is calculated by adding and subtracting original insurance premium, assumed reinsurance premium and ceded reinsurance premium.

The Company's exposure to insurance price risk as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016			
	Direct insurance	Inward reinsurance	Outward reinsurance	Total
General	₩ 866,097	₩ 76,191	₩ (568,173)	₩ 374,115
Automobile	1,938,540	-	(41,789)	1,896,751
Long-term	1,790,285	-	(240,860)	1,549,425
	₩ 4,594,922	₩ 76,191	₩ (850,822)	₩ 3,820,291

(In millions of won)	2015			
	Direct insurance	Inward reinsurance	Outward reinsurance	Total
General	₩ 860,063	₩ 77,439	₩ (621,670)	₩ 315,832
Automobile	1,745,486	-	(40,462)	1,705,024
Long-term	1,572,534	-	(191,140)	1,381,394
	₩ 4,178,083	₩ 77,439	₩ (853,272)	₩ 3 ,402,250

(4) Concentration of Insurance risk

The Company is selling general non-life insurances (fire, maritime, injury, technology, liability, package, title, guarantee and special type insurances), automobile insurances (for private use, for hire, for business, bicycle and other), long-term insurances (long-term non-life, property damage, injury, driver, savings, illness, nursing and pension) and various other insurances. The Company's risk is distributed through reinsurance, joint acceptance and diversified selling. In addition, insurances that cover serious damage of risk, although with rare possibility of the occurrence of disaster, such as storm and flood insurance are limited, and the Company controls the risk through joint acquisition.

(5) Loss development tables

The Company uses claim development of payments and the estimated ultimate claims for the accident years in order to maintain overall reserve adequacy in respect of general, automobile and long-term insurance. When the estimated ultimate claims are greater than claim payments, the Company establishes additional reserves. Loss development tables as of December 31, 2016, are as follows:

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i) General Insurance

(In millions of won)	Payment year				
Accident year	After 1 year	After 2 year	After 3 year	After 4 year	After 5 year
Estimate of gross ultimate claims (A)					
2012.1.1 ~ 2012.12.31	₩ 137,572	₩ 167,671	₩ 172,544	₩ 176,674	₩ 175,983
2013.1.1 ~ 2013.12.31	161,715	192,754	197,590	196,818	-
2014.1.1 ~ 2014.12.31	113,508	130,503	131,972	-	-
2015.1.1 ~ 2015.12.31	120,448	140,764	-	-	-
2016.1.1 ~ 2016.12.31	139,655	-	-	-	-
	672,898	631,692	502,106	373,492	175,983
Gross cumulative claim payments (B)					
2012.1.1 ~ 2012.12.31	102,438	156,207	164,788	169,497	171,663
2013.1.1 ~ 2013.12.31	124,607	173,713	187,775	190,420	-
2014.1.1 ~ 2014.12.31	83,276	116,100	122,231	-	-
2015.1.1 ~ 2015.12.31	88,727	125,558	-	-	-
2016.1.1 ~ 2016.12.31	102,591	-	-	-	-
	501,639	571,578	474,794	359,917	171,663
Difference (A-B)	₩ 171,259	₩ 60,114	₩ 27,312	₩ 13,575	₩ 4,320

ii) Automobile Insurance

(In millions of won)	Payment year						
Accident year	After 1 year	After 2 year	After 3 year	After 4 year	After 5 year	After 6 year	After 7 year
Estimate of gross ultimate claims (A)							
2010.1.1 ~ 2010.12.31	₩ 993,509	₩ 1,012,484	₩ 1,018,097	₩ 1,022,687	₩ 1,022,856	₩ 1,023,197	₩ 1,024,700
2011.1.1 ~ 2011.12.31	1,088,801	1,105,501	1,115,281	1,119,872	1,122,637	1,124,045	-
2012.1.1 ~ 2012.12.31	1,117,650	1,146,779	1,155,529	1,162,075	1,164,774	-	-
2013.1.1 ~ 2013.12.31	1,131,945	1,156,535	1,170,968	1,179,458	-	-	-
2014.1.1 ~ 2014.12.31	1,174,611	1,193,832	1,205,524	-	-	-	-
2015.1.1 ~ 2015.12.31	1,227,106	1,245,780	-	-	-	-	-
2016.1.1 ~ 2016.12.31	1,276,939	-	-	-	-	-	-
	8,010,561	6,860,911	5,665,399	4,484,092	3,310,267	2,147,242	1,024,700
Gross cumulative claim payments(B)							
2010.1.1 ~ 2010.12.31	850,192	981,338	1,004,341	1,012,469	1,018,391	1,020,229	1,021,299
2011.1.1 ~ 2011.12.31	929,491	1,066,885	1,093,589	1,109,202	1,117,381	1,119,765	-
2012.1.1 ~ 2012.12.31	939,239	1,105,672	1,135,064	1,149,585	1,156,150	-	-
2013.1.1 ~ 2013.12.31	939,569	1,114,063	1,145,110	1,161,624	-	-	-
2014.1.1 ~ 2014.12.31	969,211	1,150,462	1,180,953	-	-	-	-
2015.1.1 ~ 2015.12.31	1,020,975	1,198,241	-	-	-	-	-
2016.1.1 ~ 2016.12.31	1,052,830	-	-	-	-	-	-
	6,701,507	6,616,661	5,559,057	4,432,880	3,291,922	2,139,994	1,021,299
Difference (A-B)	₩1,309,054	₩ 244,250	₩ 106,342	₩ 51,212	₩ 18,345	₩ 7,248	₩ 3,401

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iii) Long-term Insurance

(In millions of won)	Payment year				
Accident year	After 1 year	After 2 year	After 3 year	After 4 year	After 5 year
Estimate of gross ultimate claims (A)					
2012.1.1 ~ 2012.12.31	₩ 626,361	₩ 846,818	₩ 871,856	₩ 876,265	₩ 877,537
2013.1.1 ~ 2013.12.31	709,602	965,587	997,607	1,003,646	-
2014.1.1 ~ 2014.12.31	789,087	1,083,048	1,114,821	-	-
2015.1.1 ~ 2015.12.31	885,476	1,219,393	-	-	-
2016.1.1 ~ 2016.12.31	1,064,744	-	-	-	-
	4,075,270	4,114,846	2,984,284	1,879,911	877,537
Gross cumulative claim payments (B)					
2012.1.1 ~ 2012.12.31	588,606	835,182	864,708	872,561	875,323
2013.1.1 ~ 2013.12.31	671,500	953,494	989,957	999,944	-
2014.1.1 ~ 2014.12.31	744,944	1,065,792	1,104,468	-	-
2015.1.1 ~ 2015.12.31	836,471	1,205,130	-	-	-
2016.1.1 ~ 2016.12.31	1,017,243	-	-	-	-
	3,858,764	4,059,598	2,959,133	1,872,505	875,323
Difference (A-B)	₩ 216,506	₩ 55,248	₩ 25,151	₩ 7,406	₩ 2,214

Loss development tables as of December 31, 2015, are as follows:

i) General Insurance

(In millions of won)	Payment year				
Accident year	After 1 year	After 2 year	After 3 year	After 4 year	After 5 year
Estimate of gross ultimate claims (A)					
2011.1.1 ~ 2011.12.31	₩ 129,224	₩ 154,398	₩ 159,960	₩ 161,694	₩ 162,623
2012.1.1 ~ 2012.12.31	137,072	166,294	170,767	173,276	-
2013.1.1 ~ 2013.12.31	161,506	191,911	196,768	-	-
2014.1.1 ~ 2014.12.31	111,644	128,464	-	-	-
2015.1.1 ~ 2015.12.31	116,872	-	-	-	-
	656,318	641,067	527,495	334,970	162,623
Gross cumulative claim payments (B)					
2011.1.1 ~ 2011.12.31	97,490	140,620	152,696	157,622	160,074
2012.1.1 ~ 2012.12.31	101,938	154,844	163,211	167,864	-
2013.1.1 ~ 2013.12.31	124,607	172,880	186,554	-	-
2014.1.1 ~ 2014.12.31	83,076	115,302	-	-	-
2015.1.1 ~ 2015.12.31	87,851	-	-	-	-
	494,962	583,646	502,461	325,486	160,074
Difference (A-B)	₩ 161,356	₩ 57,421	₩ 25,034	₩ 9,484	₩ 2,549

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ii) Automobile Insurance

(In millions of won)	Payment year						
Accident year	After 1 year	After 2 year	After 3 year	After 4 year	After 5 year	After 6 year	After 7 year
Estimate of gross ultimate claims (A)							
2009.1.1 ~ 2009.12.31	₩ 790,947	₩ 806,669	₩ 810,734	₩ 813,601	₩ 813,827	₩ 813,355	₩ 813,357
2010.1.1 ~ 2010.12.31	993,509	1,012,484	1,018,097	1,022,687	1,022,856	1,023,197	-
2011.1.1 ~ 2011.12.31	1,088,801	1,105,501	1,115,281	1,119,872	1,122,637	-	-
2012.1.1 ~ 2012.12.31	1,117,650	1,146,779	1,155,529	1,162,075	-	-	-
2013.1.1 ~ 2013.12.31	1,131,945	1,156,535	1,170,968	-	-	-	-
2014.1.1 ~ 2014.12.31	1,174,611	1,193,832	-	-	-	-	-
2015.1.1 ~ 2015.12.31	1,227,106	-	-	-	-	-	-
	7,524,569	6,421,800	5,270,609	4,118,235	2,959,320	1,836,552	813,357
Gross cumulative claim payments(B)							
2009.1.1 ~ 2009.12.31	662,783	779,730	797,039	804,149	808,954	810,711	812,359
2010.1.1 ~ 2010.12.31	850,192	981,338	1,004,341	1,012,469	1,018,391	1,020,229	-
2011.1.1 ~ 2011.12.31	929,491	1,066,885	1,093,589	1,109,202	1,117,381	-	-
2012.1.1 ~ 2012.12.31	939,239	1,105,672	1,135,064	1,149,585	-	-	-
2013.1.1 ~ 2013.12.31	939,569	1,114,063	1,145,110	-	-	-	-
2014.1.1 ~ 2014.12.31	969,211	1,150,462	-	-	-	-	-
2015.1.1 ~ 2015.12.31	1,020,975	-	-	-	-	-	-
	6,311,460	6,198,150	5,175,143	4,075,405	2,944,726	1,830,940	812,359
Difference (A-B)	₩1,213,109	₩ 223,650	₩ 95,466	₩ 42,830	₩ 14,594	₩ 5,612	₩ 998

iii) Long-term Insurance

(In millions of won)	Payment year				
Accident year	After 1 year	After 2 year	After 3 year	After 4 year	After 5 year
Estimate of gross ultimate claims (A)					
2011.1.1 ~ 2011.12.31	₩ 574,869	₩ 779,908	₩ 807,510	₩ 815,315	₩ 819,250
2012.1.1 ~ 2012.12.31	634,920	885,789	921,919	933,320	-
2013.1.1 ~ 2013.12.31	717,558	1,003,441	1,046,675	-	-
2014.1.1 ~ 2014.12.31	797,967	1,125,417	-	-	-
2015.1.1 ~ 2015.12.31	897,267	-	-	-	-
	3,622,581	3,794,555	2,776,104	1,748,635	819,250
Gross cumulative claim payments (B)					
2011.1.1 ~ 2011.12.31	544,181	741,333	764,853	769,759	771,762
2012.1.1 ~ 2012.12.31	597,083	836,335	865,333	873,028	-
2013.1.1 ~ 2013.12.31	679,394	953,234	988,820	-	-
2014.1.1 ~ 2014.12.31	753,756	1,064,064	-	-	-
2015.1.1 ~ 2015.12.31	848,147	-	-	-	-
	3,422,561	3,594,966	2,619,006	1,642,787	771,762
Difference (A-B)	₩ 200,020	₩ 199,589	₩ 157,098	₩ 105,848	₩ 47,488

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(6) Sensitivity analysis of insurance risk

The Company manages insurance risk by performing sensitivity analysis based on discount rate, loss ratio and insurance operating expenses ratio which are considered to have significant influence on future cash flow, timing and uncertainty. According to result of sensitivity analysis there is no material influence on the capital and net income before tax.

(In millions of won)	Assumption change	Effect on LAT	
		2016	2015
Surrenders and termination rates	+10%	₩ 141,043	₩ 11,408
	-10%	(165,516)	(634)
Loss ratio	+10%	2,828,427	2,069,252
	-10%	(2,828,427)	(2,069,252)
Insurance operating expenses ratio	+10%	265,278	229,681
	-10%	(265,278)	(229,681)
Discount rate	+0.5%	(1,444,527)	(1,139,425)
	-0.5%	1,698,991	1,318,607

(7) Liquidity risk of insurance contracts

Liquidity risk arising from insurance contracts is the increase in refunds at maturity caused by concentrations of maturity, the increase in surrender values caused by unexpected amounts in cancellation and the increase in payments of claims caused by catastrophic events. The Company manages payment of refunds payable at maturity by analyzing maturity of insurance. Premium reserve's maturity structure as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016					
	Within 1 year	1~5 years	5~10 years	10~20 years	More 20 years	Total
Long-term insurance non-participating						
Non-linked	₩ 69,202	₩ 186,161	₩ 204,735	₩ 75,545	₩ 98,289	₩ 633,932
linked	515,859	2,112,904	2,369,933	1,339,255	8,575,454	14,913,405
	585,061	2,299,065	2,574,668	1,414,800	8,673,743	15,547,337
Annuity						
Non-linked	5	146	1,566	4,182	1,592	7,491
linked	147	41,763	260,493	999,093	2,048,178	3,349,674
	152	41,909	262,059	1,003,275	2,049,770	3,357,165
Asset-linked						
linked	375	27,009	-	-	-	27,384
Total						
Non-linked	69,207	186,307	206,301	79,727	99,881	641,423
linked	516,381	2,181,676	2,630,426	2,338,348	10,623,632	18,290,463
	₩ 585,588	₩ 2,367,983	₩ 2,836,727	₩ 2,418,075	₩10,723,513	₩18,931,886

(*) Includes liabilities classified as an investment contract amounting to ₩112,822 million.

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(In millions of won)	2015					
	Within 1 year	1~5 years	5~10 years	10~20 years	More 20 years	Total
Long-term insurance non-participating						
Non-linked	₩ 90,800	₩ 195,361	₩ 252,678	₩ 74,402	₩ 99,982	₩ 713,223
Linked	574,068	1,861,552	2,400,327	1,535,227	6,945,769	13,316,943
	664,868	2,056,913	2,653,005	1,609,629	7,045,751	14,030,166
Long-term insurance participating						
Non-linked	784	-	-	-	-	784
Annuity						
Non-linked	5	140	1,463	4,159	1,739	7,506
linked	149	34,742	214,197	895,952	1,923,494	3,068,534
	154	34,882	215,660	900,111	1,925,233	3,076,040
Asset-linked						
linked	-	28,235	-	-	-	28,235
Total						
Non-linked	91,589	195,501	254,141	78,561	101,721	721,513
linked	574,217	1,924,529	2,614,524	2,431,179	8,869,263	16,413,712
	₩ 665,806	₩ 2,120,030	₩ 2,868,665	₩ 2,509,740	₩ 8,970,984	₩17,135,225

(*) Includes liabilities classified as an investment contract amounting to ₩115,062 million.

(8) Credit risk of insurance contract

Credit risk of insurance contract is the economic loss arising from non-performing contractual obligations due to decline in credit ratings or default. Through strict internal review, the Company cedes insurance contracts to the insurers rated above BBB- of S&P rating.

As of December 31, 2016, there are 219 reinsurance companies that deal with the Company, and the top three insurance companies' concentration and credit ratings are as follows:

Reinsurance company	Ratio	Credit rating
KOREAN RE	68.97%	AA
HDIgerling	3.15%	AA+
HANNOVER RE	2.66%	AAA

Exposures to credit risk related to reinsurance as of December 31, 2016 and 2015 were as follows:

(In millions of won)	2016	2015
Reinsurance assets[1]	₩ 730,299	₩ 716,444
Net receivables from reinsurers[2]	34,647	40,045
	₩ 764,946	₩ 756,489

[1] Net carrying amounts that deduct impairment loss
[2] Net carrying amounts of each reinsurance company that offsets reinsurance accounts receivable and reinsurance accounts payable and deduct allowance for loan losses

NOTES TO SEPARATE FINANCIAL STATEMENTS

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(9) Interest risk of insurance contract

The interest rate risk exposure from the Company's insurance contracts is the risk of unexpected losses in net interest income or net assets arising from changes in interest rates and it is managed to minimize the loss experienced. For long-term, non-life insurance contracts, the Company calculates exposure of interest-bearing assets and interest-bearing liabilities. Liabilities exposure is premium reserves after subtracting costs of termination deductions. Asset exposure is interest-bearing assets. Assets that receive only fees without interest are excluded from interest bearing assets. Exposures to interest rate risk as of December 31, 2016 and 2015, are as follows:

i) Exposure to interest rate risk

(In millions of won)	2016	2015
Liabilities		
Fixed interest rate	₩ 639,263	₩ 716,786
Variable interest rate	17,805,199	15,642,298
	18,444,462	16,359,084
Assets		
Due from banks	134,739	356,960
Financial assets at fair value through profit or loss	430,443	385,700
Available-for-sale financial assets	7,133,036	6,617,308
Held-to-maturity financial assets	3,330,444	1,932,279
Loans	6,677,951	6,599,146
	₩ 17,706,613	₩ 15,891,393

ii) Measurement and recognition method

Duration is used to measure interest rate risk within risk based solvency test. ALM system for risk based solvency test is utilized to manage interest rate risk internally. In addition, Risk Management Committee sets ALM strategy every year to manage interest rate risk.

iii) Sensitivity to changes in interest rates

Generally, when interest rates rise, the value and duration of assets and liabilities fall, when interest rates fall, value and duration of assets and liabilities increase. When duration of assets is shorter than duration of liabilities, the interest risk is increased if the interest rates fall since increased asset value is smaller than liabilities increase.

iv) Negative spread risk control

To control interest expenses from other liabilities and investment incomes from assets, the Company publicizes its interest rate considering market interest rate and return on invested insurance assets of the Company.

4-3. Credit risk

(1) Overview

Credit risk is the loss arising due to debtor's default or counterparty's breach of a contract, which includes the risk of potential loss due to decrease in the value of bonds held (arising from counterparty's credit rating degrade). Credit risk is caused by a change in value or income in deposits, loans and securities.

(2) Credit risk management

The Company measures credit risk by standard RBC method of Korea Financial Supervisory Service. Credit risk limits are set and managed based on the credit risk resulted from the model. For the Company's main asset portfolio, limits based on industry and category are set and managed. The Company obtains bonds or loans only when the assets meet the minimum credit rating.

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(3) Maximum exposure to credit risk

The Company's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements as of December 31, 2016 and 2015, is as follows:

(In millions of won)	2016	2015
Financial Assets		
Cash and cash equivalents[1]	₩ 778,018	₩ 689,212
Trading assets [2]	95,329	30,356
Financial assets designated at fair value through profit or loss [2]	640,937	558,640
Available-for-sale financial assets [2]	7,069,474	6,597,132
Held-to-maturity financial assets	3,543,666	2,145,903
Loans [3]	6,790,460	6,713,093
Derivative assets to hedge	6,145	11,178
Other receivables [4]	461,177	654,454
Reinsurance assets [5]	730,299	716,444
	20,115,505	18,116,412
Off-balance sheet items		
Commitments	1,771,736	1,423,187
	₩ 21,887,241	₩ 19,539,599

[1] Cash on hand, which is not under the influence of credit risk, is excluded.
[2] Equity securities and beneficiary certificates are excluded.
[3] Net carrying amounts adjusted by allowance for doubtful accounts and deferred loan origination cost (fee).
[4] Net carrying amounts of each client adjusted by unpaid claims, allowance for doubtful accounts and present value discount.
[5] Net carrying amounts adjusted by impairment of reinsurance assets.

(4) Credit risk of loans

In order to manage credit risk of loans, the Company sets and manages allowance for credit loss. At the end of the reporting period, the Company recognizes impairment if there is objective evidence that there has been a loss in carrying amount of the amortized cost of loans. According to Korean IFRS, impairment means an incurred loss; impairment on the basis of expected future transactions and events is not recognized despite its possibility of occurrence. The Company measures the incurred loss of financial asset, and this loss is deducted from the carrying amount of the asset.

i) Loans by past due or impairment as of December 31, 2016 and 2015, were as follows:

(In millions of won)	2016	2015
Neither past due nor impaired	₩ 6,708,261	₩ 6,634,174
Past due but not impaired	69,637	69,952
Impaired	71,378	40,125
	6,849,276	6,744,251
Allowance of neither past due nor impaired	(12,017)	(16,117)
Allowance of past due but not impaired	(1,419)	(783)
Allowance of impaired	(45,380)	(14,258)
	(58,816)	(31,158)
Net carrying value	₩ 6,790,460	₩ 6,713,093

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ii) Neither past due nor impaired loans

① Estimated fair value of collateral for loans that are neither past due nor impaired as of December 31, 2016 and 2015, is as follows:

(In millions of won)	2016					
	Collateral and other credit enhancements (*)					
	Loans	Refund of surrender value	Real estate	Guarantee insurance	Movable property and other	Total
Policy loans	₩ 1,752,542	₩ 1,752,542	₩ -	₩ -	₩ -	₩ 1,752,542
Loans secured by real estate	2,425,639	-	2,409,394	-	-	2,409,394
Unsecured loans	256,551	-	-	-	-	-
Loans secured by third party guarantee	27,297	-	-	27,297	-	27,297
Other loans	2,246,232	-	65,000	-	356,955	421,955
	₩ 6,708,261	₩ 1,752,542	₩ 2,474,394	₩ 27,297	₩ 356,955	₩ 4,611,188

(*) At the lower of the sum of collateral and other credit enhancement, and the loan balances.

(In millions of won)	2015					
	Collateral and other credit enhancements (*)					
	Loans	Refund of surrender value	Real estate	Guarantee insurance	Movable property and other	Total
Policy loans	₩ 1,506,851	₩ 1,506,851	₩ -	₩ -	₩ -	₩ 1,506,851
Loans secured by real estate	2,655,848	-	2,636,525	-	-	2,636,525
Unsecured loans	206,964	-	-	-	-	-
Loans secured by third party guarantee	29,898	-	-	29,898	-	29,898
Other loans	2,234,613	-	-	-	399,138	399,138
	₩ 6,634,174	₩ 1,506,851	₩ 2,636,525	₩ 29,898	₩ 399,138	₩ 4,572,412

(*) At the lower of the sum of collateral and other credit enhancement and the loan balances.

② Credit quality of loans that are neither past due nor impaired as of December 31, 2016 and 2015, is as follows:

(In millions of won)	2016					
	Loans	Normal	Precautionary	Substandard	Doubtful	Presumed loss
Policy Loans	₩ 1,752,542	₩ 1,752,542	₩ -	₩ -	₩ -	₩ -
Loans secured by real estate	2,425,639	2,425,639	-	-	-	-
Unsecured loans	256,551	256,551	-	-	-	-
Loan secured by third party guarantees	27,297	27,297	-	-	-	-
Other loans	2,246,232	2,218,214	28,018	-	-	-
	₩ 6,708,261	₩ 6,680,243	₩ 28,018	₩ -	₩ -	₩ -

(In millions of won)	2015					
	Loans	Normal	Precautionary	Substandard	Doubtful	Presumed loss
Policy Loans	₩ 1,506,851	₩ 1,506,851	₩ -	₩ -	₩ -	₩ -
Loans secured by real estate	2,655,848	2,655,848	-	-	-	-
Unsecured loans	206,964	206,964	-	-	-	-
Loan secured by third party guarantees	29,898	29,898	-	-	-	-
Other loans	2,234,613	2,205,054	29,559	-	-	-
	₩ 6,634,174	₩ 6,604,615	₩ 29,559	₩ -	₩ -	₩ -

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iii) Past due but not impaired loans

① Aging analyses of loans that are past due but not impaired as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016			
	1~30days	31~60days	61~89days	Total
Loans secured by real estate	₩ 52,1895,817	₩ 1,712	₩ 1,085	₩ 54,986
Unsecured loans	5,817	1,308	1,025	8,150
Loans secured by third party guarantee	74	1	-	75
Other loans	6,426	-	-	6,426
	₩ 64,506	₩ 3,021	₩ 2,110	₩ 69,637

(In millions of won)	2015			
	1~30days	31~60days	61~89days	Total
Loans secured by real estate	₩ 56,079	₩ 375	₩ 403	₩ 56,857
Unsecured loans	3,510	698	475	4,683
Loans secured by third party guarantee	21	50	-	71
Other loans	6,590	1397	354	8,341
	₩ 66,200	₩ 2,520	₩ 1,232	₩ 69,952

② Estimated fair value of collateral for loans that are past due but not impaired as of December 31, 2016 and 2015, is as follows:

(In millions of won)	2016				
	Collateral and other credit enhancements(*)				
	Loans	Real estate	Guarantee insurance	Movable property and other	Total
Loans secured by real estate	₩ 54,986	₩ 54,584	₩ -	₩ -	₩ 54,584
Unsecured loans	8,150	-	-	-	-
Loans secured by third party guarantee	75	-	75	-	75
Other loans	6,426	-	-	3,141	3,141
	₩ 69,637	₩ 54,584	₩ 75	₩ 3,141	₩ 57,800

(In millions of won)	2015				
	Collateral and other credit enhancements				
	Loans	Real estate	Guarantee insurance	Movable property and other	Total
Loans secured by real estate	₩ 56,857	₩ 56,468	₩ -	₩ -	₩ 56,468
Unsecured loans	4,683	-	-	-	-
Loans secured by third party guarantee	71	-	71	-	71
Other loans	8,341	-	-	8,310	8,310
	₩ 69,952	₩ 56,468	₩ 71	₩ 8,310	₩ 64,849

(*) At the lower of the sum of collateral and other credit enhancement, and the loan balances

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December 31, 2016 and 2015

iv) Impaired loans

① Estimated fair value of collateral for loans that are impaired as of December 31, 2016 and 2015, is as follows:

(In millions of won)	2016				
	Collateral and other credit enhancements(*)				
	Loans	Real estate	Guarantee insurance	Movable property and other	Total
Policy loans	₩ 654	₩ -	₩ -	₩ 566	₩ 566
Loans secured by real estate	15,537	15,413	-	-	15,413
Unsecured loans	6,374	-	-	-	-
Other loans	48,813	-	-	4,126	4,126
	₩ 71,378	₩ 15,413	₩ -	₩ 4,692	₩ 20,105

(*) At the lower of the sum of collateral and other credit enhancement, and the loan balances.

(In millions of won)	2015				
	Collateral and other credit enhancements (*)				
	Loans	Real estate	Guarantee insurance	Movable property and other	Total
Loans secured by real estate	₩ 405	₩ -	₩ -	₩ 355	₩ 355
Unsecured loans	16,231	16,132	-	-	16,132
Loans secured by third party guarantee	2,491	-	-	-	-
Other loans	20,998	-	-	3,376	3,376
	₩ 40,125	₩ 16,132	₩ -	₩ 3,731	₩ 19,863

(*) At the lower of the sum of collateral and other credit enhancement, and the loan balances.

② Impairment loss and impairment loss ratio for impaired loans as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016					
	Individual assessment			Collective assessment		
	Carrying value before impairment loss	Impairment loss	Ratio	Carrying value before impairment loss	Impairment loss	Ratio
Policy loans	₩ 654	₩ 88	13.46%	₩ -	₩ -	-
Loans secured by real estate	-	-	-	15,537	623	4.01%
Unsecured loans	-	-	-	6,374	4,555	71.46%
Other loans	44,686	39,806	89.08%	4,127	308	7.46%
	₩ 45,340	₩ 39,894	87.99%	₩ 26,038	₩ 5,486	21.07%

(In millions of won)	2015					
	Individual assessment			Collective assessment		
	Carrying value before impairment loss	Impairment loss	Ratio	Carrying value before impairment loss	Impairment loss	Ratio
Loans secured by real estate	₩ 405	₩ 50	12.35%	₩ -	₩ -	-
Unsecured loans	-	-	-	16,231	587	3.62%
Loans secured by third party guarantee	-	-	-	2491	1679	67.40%
Other loans	17,616	11,786	66.91%	3,382	156	4.61%
	₩ 18,021	₩ 11,836	65.68%	₩ 22,104	₩ 2,422	10.96%

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(5) Credit risk of securities

i) Credit risk of debt securities as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Neither past due nor impaired	₩ 11,349,033	₩ 9,330,626
Impaired	-	958
	₩ 11,349,033	₩ 9,331,584

ii) Credit ratings of debt securities as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016				
	AAA ~ AA+ (*)	AA ~ A-	BBB+~ BB+	Unrated	Total
Trading assets	₩ 94,956	₩ -	₩ -	₩ -	₩ 94,956
Financial assets designated at fair value through profit or loss	298,772	318,026	-	24,139	640,937
Available-for-sale financial assets	4,992,007	1,933,214	10,062	134,191	7,069,474
Held-to-maturity financial assets	3,420,398	40,000	-	83,268	3,543,666
	₩ 8,806,133	₩ 2,291,240	₩ 10,062	₩ 241,598	₩ 11,349,033

(In millions of won)	2015				
	AAA ~ AA+ (*)	AA ~ A-	BBB+~ BB+	Unrated	Total
Trading assets	₩ -	₩ 29,910	₩ -	₩ -	₩ 29,910
Financial assets designated at fair value through profit or loss	264,359	294,281	-	-	558,640
Available-for-sale financial assets	4,535,994	2,050,149	10,585	404	6,597,132
Held-to-maturity financial assets	2,105,903	40,000	-	-	2,145,903
	₩ 6,906,256	₩ 2,414,340	₩ 10,585	₩ 404	₩ 9,331,585

(*) Debt securities issued by government and municipalities are included.

(6) Credit risk of derivative assets

Credit ratings of derivatives as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016		
	AAA ~ AA+	AA ~ A-	Total
Trading derivatives			
Currency related	₩ 56	₩ -	₩ 56
Other	317	-	317
	373	-	373
Hedging derivatives			
Interest rate related	65	-	65
Currency related	5,977	103	6,080
	₩ 6,042	₩ 103	₩ 6,145

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(In millions of won)	2015		
	AAA ~ AA+	AA ~ A-	Total
Trading derivatives			
Currency related	₩ 208	₩ 73	₩ 281
Other	165	-	165
	373	73	446
Hedging derivatives			
Interest rate related	352	-	352
Currency related	10,604	222	10,826
	₩ 10,956	₩ 222	₩ 11,178

(7) Concentration of credit risk

An analysis of concentration of credit risk of loans and securities by geographical area location and industry sector as of December 31, 2016 and 2015, is as follows:

i) Geographical area

(In millions of won)	2016			
	Korea	United States	Other	Total
Trading assets	₩ 95,329	₩ -	₩ -	₩ 95,329
Financial assets designated at fair value through profit or loss	438,647	-	202,290	640,937
Available-for-sale financial assets	5,003,466	1,047,495	1,018,513	7,069,474
Held-to-maturity financial assets	3,449,993	93,673	-	3,543,666
Loans	6,790,460	-	-	6,790,460
Hedging derivatives	6,145	-	-	6,145
	₩ 15,784,040	₩ 1,141,168	₩ 1,220,803	₩ 18,146,011

(In millions of won)	2015			
	Korea	United States	Other	Total
Trading assets	₩ 30,356	₩ -	₩ –	₩ 30,356
Financial assets designated at fair value through profit or loss	475,763	-	82,877	558,640
Available-for-sale financial assets	5,066,382	609,031	921,719	6,597,132
Held-to-maturity financial assets	2,145,903	-	-	2,145,903
Loans	6,713,093	-	-	6,713,093
Hedging derivatives	11,178	-	-	11,178
	₩ 14,442,675	₩ 609,031	₩ 1,004,596	₩ 16,056,302

ii) Industry sector

(In millions of won)	2016					
	Financial institutions	Household	Public sector	Real estate	Other	Total
Trading assets	₩ 373	₩ -	₩ 94,956	₩ -	₩ -	₩ 95,329
Financial assets designated at fair value through profit or loss	570,177	-	-	-	70,760	640,937
Available-for-sale financial assets	2,636,643	-	2,470,377	-	1,962,454	7,069,474
Held-to-maturity financial assets	179,867	-	3,230,126	-	133,673	3,543,666
Loans	313,353	4,073,991	-	445,667	1,957,449	6,790,460
Hedging derivatives	6,145	-	-	-	-	6,145
	₩ 3,706,558	₩ 4,073,991	₩ 5,795,459	₩ 445,667	₩ 4,124,336	₩18,146,011

NOTES TO SEPARATE FINANCIAL STATEMENTS

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(In millions of won)	2015					
	Financial institutions	Household	Public sector	Real estate	Other	Total
Trading assets	₩ 30,356	₩ -	₩ -	₩ -	₩ -	₩ 30,356
Financial assets designated at fair value through profit or loss	511,700	-	-	-	46,940	558,640
Available-for-sale financial assets	2,316,479	-	2,783,905	-	1,496,748	6,597,132
Held-to-maturity financial assets	179,713	-	1,926,190	-	40,000	2,145,903
Loans	700,685	4,118,023	-	549,511	1,344,874	6,713,093
Hedging derivatives	11,178	-	-	-	-	11,178
	₩ 3,750,111	₩ 4,118,023	₩ 4,710,095	₩ 549,511	₩ 2,928,562	₩16,056,302

(8) Classification of asset quality for loans and other receivables

Classification of asset quality for loans and other receivables as of December 31, 2016 and 2015, is as follows:

(In millions of won)	2016					
	Normal	Precautionary	Substandard	Doubtful	Presumed loss	Total
Loans[1]						
Policy loans	₩ 1,753,109	₩ -	₩ -	₩ -	₩ 88	₩ 1,753,197
Loans secured by real estate	2,461,552	2,763	14,297	911	214	2,479,737
Unsecured loans	262,376	2,332	237	3,061	3,077	271,083
Loans secured by third party guarantees	27,370	1	-	-	-	27,371
Other loans	2,227,704	28,084	771	46,293	1,747	2,304,599
	6,732,111	33,180	15,305	50,265	5,126	6,835,987
Other receivables						
Insurance accounts receivables[2]	87,432	8,843	4,048	3,319	13,544	117,186
Accounts receivables	86,362	11	61	84	808	87,326
Accrued revenue[3]	25,135	242	33	151	150	25,711
Notes receivables	103	-	-	-	-	103
	199,032	9,096	4,142	3,554	14,502	230,326
	₩ 6,931,143	₩ 42,276	₩ 19,447	₩ 53,819	₩ 19,628	₩ 7,066,313

[1] Amount before adjusting by impairment credit loss and deferred loan origination fees and costs
[2] Amount after offsetting insurance accounts payables by counterparties
[3] Accrued interest related to loans

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(In millions of won)	2015					
	Normal	Precautionary	Substandard	Doubtful	Presumed loss	Total
Loans[1]						
Policy loans	₩ 1,507,206	₩ -	₩ -	₩ -	₩ 50	₩ 1,507,256
Loans secured by real estate	2,692,797	772	15,633	315	193	2,709,710
Unsecured loans	210,489	1173	153	1260	1076	214,151
Loans secured by third party guarantees	29,917	50	-	-	-	29,967
Other loans	2,213,482	31387	399	1,810	18,782	2,265,860
	6,653,891	33,382	16,185	3,385	20,101	6,726,944
Other receivables						
Insurance accounts receivables[2]	84,266	22,956	2,569	4,037	10,386	124,214
Accounts receivables	78,739	123	114	38	388	79,402
Accrued revenue[3]	22,189	217	47	104	71	22,628
Notes receivables	374	-	-	-	-	374
	185,568	23,296	2,730	4,179	10,845	226,618
	₩ 6,839,459	₩ 56,678	₩ 18,915	₩ 7,564	₩ 30,946	₩ 6,953,562

[1] Amount before adjusting by impairment credit loss and deferred loan origination fees and costs
[2] Amount after offsetting insurance accounts payables by counterparties
[3] Accrued interest related to loans

4-4. Liquidity risk

(1) Overview

Liquidity risk is the risk of unexpected losses from change in cash flow by difference of maturities between assets and liabilities and increase in cancellation of insurance contracts. For the control of the risk, the difference of assets and liabilities maturities needs to be solved and the unexpected losses from cash outflow should be minimized.

(2) Liquidity risk management

The Company analyzes differences between funding and the use of funds beforehand to manage liquidity risk. In addition, to evaluate the Company's liquidity management skills during an extreme crisis situation, the Company uses various crisis scenarios that will be caused due to an increase in surrender value to analyze and manage the liquidity risk.

(3) Maturity analysis of financial liabilities

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

i) Maturities of financial liabilities

(In millions of won)	2016						
	On demand	Less than 30 days	1~3 months	3~12 months	1~5 years	More than 5 years	Total
Trading derivatives	₩ 8,320	₩ -	₩ -	₩ -	₩ -	₩ 3	₩ 8,323
Insurance accounts payable	7,042	170,566	110,913	72,388	-	-	360,909
Accrued expenses	-	99,361	-	-	-	-	99,361
Others	-	38,391	3,143	2,689	7,284	-	51,507
	15,362	308,318	114,056	75,077	7,284	3	520,100
Off-balance sheet items							
Commitments	1,771,736	-	-	-	-	-	1,771,736
	₩ 1,787,098	₩ 308,318	₩ 114,056	₩ 75,077	₩ 7,284	₩ 3	₩ 2,291,836

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(In millions of won)	2015						
	On demand	Less than 30 days	1~3 months	3~12 months	1~5 years	More than 5 years	Total
Trading derivatives	₩ 4,280	₩ -	₩ -	₩ -	₩ -	₩ 1,430	₩ 5,710
Insurance accounts payable	8,249	184,975	86,921	85,190	-	-	365,335
Accrued expenses	-	92,363	-	-	-	-	92,363
Others	-	36,287	4	6,811	7,588	572	51,262
	₩ 12,529	₩ 313,625	₩ 86,925	₩ 92,001	₩ 7,588	₩ 2,002	₩ 514,670
Off-balance sheet items							
Commitments	1,423,187	-	-	-	-	-	1,423,187
	₩ 1,435,716	₩ 313,625	₩ 86,925	₩ 92,001	₩ 7,588	₩ 2,002	₩ 1,937,857

ii) Maturities of hedging derivatives liabilities

(In millions of won)	2016				
	Less than 30 days	1~3 months	3~12 months	1~5 years	Total
Currency forwards					
Cash inflow	₩ 124,241	₩ 311,322	₩ 1,736,605	₩ 74,009	₩ 2,246,177
Cash outflow	128,765	319,985	1,815,778	78,553	2,343,081
Net cash flow	(4,524)	(8,663)	(79,173)	(4,544)	(96,904)
Currency swaps					
Cash inflow	2,209	5,345	453,229	462,835	923,618
Cash outflow	2,472	5,931	486,277	488,957	983,637
Net cash flow	(263)	(586)	(33,048)	(26,122)	(60,019)
Total					
Cash inflow	126,450	316,667	2,189,834	536,844	3,169,795
Cash outflow	131,237	325,916	2,302,055	567,510	3,326,718
Net cash flow	₩ (4,787)	₩ (9,249)	₩ (112,221)	₩ (30,666)	₩ (156,923)

(In millions of won)	2015				
	Less than 30 days	1~3 months	3~12 months	1~5 years	Total
Currency forwards					
Cash inflow	₩ 121,393	₩ 427,668	₩ 1,233,332	₩ 242,178	₩ 2,024,571
Cash outflow	127,596	449,137	1,277,593	256,111	2,110,437
Net cash flow	(6,203)	(21,469)	(44,261)	(13,933)	(85,866)
Currency swaps					
Cash inflow	67	1,004	56,677	56,387	114,135
Cash outflow	53	965	60,120	58,854	119,992
Net cash flow	14	39	(3,443)	(2,467)	(5,857)
Total					
Cash inflow	121,460	428,672	1,290,009	298,565	2,138,706
Cash outflow	127,649	450,102	1,337,713	314,965	2,230,429
Net cash flow	₩ (6,189)	₩ (21,430)	₩ (47,704)	₩ (16,400)	₩ (91,723)

Maturity analysis above is presented using the undiscounted cash flows and based on the Company's earliest payment date, including principal and interest.

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4-5. Market risk

(1) Definition

Market risk is the risk of possible loss that an asset might experience due to changes in stock prices, interest rates, and/or exchange rates. Market risk usually occurs from securities and financial derivatives.

(2) Purpose of market risk management

The goal of market risk management is to prepare for unexpected losses due to the market's unfavorable changes in interest rates, stock prices and exchange rates managing risk in accordance with the Company's tolerance levels and maximizing revenue against risks incurred.

Method of market risk management

i) Measurement of market risk

Market risk is measured by Financial Supervisory Service's standard model. The model provided by the Financial Supervisory Service is based on RBC system, widely used by insurance companies. By analyzing the market's sensitivity, the Company regularly analyzes its market portfolio risk.

ii) Control of market risk

In order to control market risk, the Company runs a committee, reviews structured securities beforehand and manages the limits. In a way of market risk management, investments that exceed a certain level of risk must be authorized by the investment review committee. Structured securities must be reviewed by the risk management department, separate from the operating department, during an execution of an investment. In addition, in order to control market risk, certain limits, position limits, loss limits, and risk limits are set and regularly checked for compliance.

iii) Report of market risk

Market risk management, important key factors and limit management status are reported regularly to the risk management committee.

(3) Sensitivity analysis

Sensitive analysis of foreign exchange rate, interest rate and stock price as of December 31, 2016 and 2015, are as follows:

i) Exchange rate

(In millions of won)	Effect on profit of loss	Effect on other comprehensive income
December 31, 2016		
₩100 increase KRW/USD FX Rate	₩ 2,309	₩ 99
₩100 decrease KRW/USD FX Rate	(2,309)	(99)
December 31, 2015		
₩100 increase KRW/USD FX Rate	2,588	477
₩100 decrease KRW/USD FX Rate	₩ (2,588)	₩ (477)

ii) Interest rate

(In millions of won)	Effect on profit of loss	Effect on other comprehensive income
December 31, 2016		
100bp increase	₩ (25,299)	₩ (479,904)
100bp decrease	25,299	479,904
December 31, 2015		
100bp increase	(17,523)	(471,404)
100bp decrease	₩ 17,523	₩ 471,404

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iii) Stock price

(In millions of won)	Effect on profit of loss	Effect on other comprehensive income
December 31, 2016		
10% increase	₩ 2,423	₩ 75,365
10% decrease	(2,423)	(75,365)
December 31, 2015		
10% increase	139	78,450
10% decrease	₩ (139)	₩ (78,450)

4-6. Capital adequacy test

(1) Purpose of capital management

The goal of asset management is to maintain the ability to make the payments by having enough assets on hand, even when an unexpected loss occurs.

(2) Subjects of the capital management

Through setting the limit and managing the aggregated and individual risk, the Company manages asset risk. When the limit is set, available capital is taken into consideration to set the limit for asset risk.

i) Available capital is a risk buffer, which helps maintain the ability to make payments when the company experiences an unexpected loss. Available capital is calculated as core capital and supplementary capital after deduction of certain deduction items and deficit of capital in subsidiaries, described as follows:

	Description
Core capital	Paid-in capital, capital surplus, retained earnings, accumulated other comprehensive income etc.
Supplementary capital	Subordinated debt, hybrid bond, reserve for participating policyholders' dividends, normal and precautionary amount of bad debt reserve and allowance for credit loss, deferred tax liability regarding emergency risk reserve
Deductions	Deferred acquisition costs, intangible assets (e.g., goodwill), prepaid expenses, deferred tax assets, estimated amount of cash dividends to shareholders, etc.
Subsidiaries' deficiency of capital	The deficiency in net assets of subsidiaries was increased or decreased based on the insurance company's ownership amount

ii) Required capital is the amount of risk calculated based on the scale of insurance/interest rate/credit/market/operating risk internal to the Company. The total amount of required capital is calculated based on the correlation between it and the individual risk.

	Definition
Insurance risk	The risk of loss due to unexpected increase in loss ratio.
Interest rate risk	The risk that the decrease in net value, caused by change in interest rate, will have a negative effect on economic status.
Credit risk	The risk that loss will arise due to debtor's default or counterparty's breach of contract
Market risk	Risk of loss due to the change in market cost (stock, interest rate, exchange rate)
Operating risk	Risk of loss due to inappropriate internal procedure, human capital, system and external events.

(3) External requirement of capital adequacy and implementation of capital management

For the asset management of insurance companies, supervisory authorities use methods that evaluate the RBC ratio, quarterly timely improve the RBC ratio (based on RBC ratio; divided into recommendation, need or command of management improvement), and uses RBC ratio in Risk Assessment and Application System ('RAAS'). During this process, timely corrective action is used based on the level where the RBC ratio is below 100%. In order to connect the internal model with asset management standard, RBC standard of available capital is applied to risk limits of transcription and limit distribution of individual risk.

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(4) Achievement of capital management goal

In order to achieve the goals of asset management, it is operated based on the set limit of aggregated risk and individual risk and its results are regularly reported to the management and risk management risk committee. When setting the limit, the limit is maintained at a level so that payment is possible and compliance with these rules are regularly checked so that the goal of asset management can be reached. In addition, the Company currently maintains at or above this standard as of December 31, 2016 and 2015.

5. Measurement of fair value of financial instruments

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. The best estimate of the fair value of financial instruments is the quoted price in the active market. The Company believes that the fair value and its measurement method of financial instruments is appropriate and reasonable, however, it may be changed under another measurement method or assumption. As various methods have been adopted to calculate fair value of financial instruments and a number of assumptions have been made, it is hard to reasonably compare the fair values of financial instruments measured by different financial institutions.

(1) Financial instruments measured at amortized costs

The method of measuring fair value of financial instruments measured at amortized cost is as follows:

Accounts	Methodology
Cash and cash equivalents	The difference between carrying amount and fair value of cash and cash equivalents is not significant, so carrying amount is recognized as the fair value.
Held-to-maturity financial assets	The average price provided by the KIS bond valuation Inc. and NICE P&I Inc. is used as the fair value.
Loans and other receivables	Fair value of loans is measured by the present value of the amount expected to receive. Expected cash flow is discounted using the interest rate considering current market interest rate and credit spread.
Deposits, debts, other financial liabilities	The difference between carrying value and fair value of other financial liabilities is not significant so the carrying value is recognized as the fair value.

The carrying value and the fair value of financial instruments measured at amortized cost as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents	₩ 778,018	₩ 778,018	₩ 689,212	₩ 689,212
Held-to-maturity financial assets	3,543,666	3,639,215	2,145,903	2,365,445
Loans	6,790,460	6,812,223	6,713,093	6,800,117
Other receivables	634,228	633,739	804,319	805,142
	11,746,372	11,863,195	10,352,527	10,659,916
Financial liabilities				
Other financial liabilities	₩ 511,373	₩ 511,373	₩ 508,617	₩ 508,617

(2) Financial instruments measured at the fair value

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

(i) Level 1: Financial instruments measured at quoted prices in active market for identical instruments are classified as level 1.

(ii) Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as level 2.

(iii) Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as level 3.

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In case that any occurrence that may cause changes in fair value levels, the transfers between levels are deemed to have occurred at the beginning of the financial period.

i) As of December 31, 2016 and 2015, the level of the fair value hierarchy within which the fair value measurement are categorized as follows:

(In millions of won)	2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Trading assets	₩ 86,117	₩ 250,028	₩ 317	₩ 336,462
Financial assets designated at fair value through profit or loss	-	43,114	597,824	640,938
	86,117	293,142	598,141	977,400
Available-for-sale financial assets [1]	631,006	6,835,104	2,137,296	9,603,406
Investments in associates and subsidiaries				
Beneficiary certificate	-	248,405	137,637	386,042
Hedging derivative assets	-	6,145	-	6,145
	717,123	7,382,796	2,873,073	10,972,992
Financial liabilities				
Financial liabilities designated at fair value through profit or loss	-	8,320	3	8,323
Hedging derivative liabilities	-	147,320	-	147,320
	₩ -	₩ 155,640	₩ 3	₩ 155,643

[1] Available-for-sale financial assets that are measured at acquisition cost due the inability to measure the reliable fair value are excluded.

(In millions of won)	2015			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Trading assets	₩ 2,124	₩ 120,355	₩ 30,074	₩ 152,553
Financial assets designated at fair value through profit or loss	-	39,550	519,090	558,640
	2,124	159,905	549,164	711,193
Available-for-sale financial assets[1]	1,058,437	5,858,357	1,575,533	8,492,327
Investments in associates and subsidiaries				
Beneficiary certificate	-	300,194	93,789	393,983
Hedging derivative asset	-	11,178	-	11,178
	1,060,561	6,329,634	2,218,486	9,608,681
Financial liabilities	-	4,280	1,431	5,711
Financial liabilities designated at fair value through profit or loss	-	95,336	-	95,336
Hedging derivative liabilities	₩ -	₩ 99,616	₩ 1,431	₩ 101,047

[1] Available-for-sale financial assets that are measured at acquisition cost due the inability to measure the reliable fair value are excluded

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ii) The fair value hierarchy of financial instruments which are not measured at fair value but disclosed in the financial statements as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	₩ -	₩ 778,018	₩ -	₩ 778,018
Held to maturity financial assets	2,369,929	1,269,286	-	3,639,215
Loans	-	331,492	6,480,731	6,812,223
Other receivables	-	50,266	583,473	633,739
	2,369,929	2,429,062	7,064,204	11,863,195
Financial liabilities				
Other financial liabilities	₩ -	₩ -	₩ 511,373	₩ 511,373

(In millions of won)	2015			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	₩ -	₩ 689,212	₩ -	₩ 689,212
Held to maturity financial assets	1,671,236	694,209	-	2,365,445
Loans	-	471,094	6,329,023	6,800,117
Other receivables	-	262,643	542,499	805,142
	1,671,236	2,117,158	6,871,522	10,659,916
Financial liabilities				
Other financial liabilities	₩ -	₩ -	₩ 508,715	₩ 508,715

(3) Financial instruments that are measured at acquisition cost due to inability to measure the reliable fair value as of December 31, 2016 and 2015, are as follows:

(In millions of Korean wons)	2016	2015
Available-for-sale financial assets	78,018	68,111

(4) There was no transfer between level 1 and level 2 for the period ended December 31, 2016 and 2015.

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(5) Valuation techniques and inputs used in measuring fair value of financial instruments classified as level 2 as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016		
	Fair value	Valuation techniques	Inputs
Financial assets			
Trading assets	₩ 250,028	Discounted cash flow, option pricing model	Price of underlying assets, discount rate, volatility
Financial assets designated at fair value through profit or loss	43,114	Discounted cash flow, option pricing model	Price of underlying assets, discount rate, volatility
Available-for-sale financial assets (*)	6,835,104	Discounted cash flow, option pricing model, net asset value	Price of underlying assets, discount rate, volatility
Investments in associates and subsidiaries (Beneficiary certificate) (*)	248,405	Net asset value	Not applicable
Hedging derivatives	6,145	Discounted cash flow	Discount rate, foreign exchange rate
	7,382,796		
Financial liabilities			
Financial liabilities designated at fair value through profit or loss	8,320	Discounted cash flow	Discount rate, foreign exchange rate
Hedging derivatives	147,320	Discounted cash flow	Discount rate, foreign exchange rate
	₩ 155,640		

(*) Valuation inputs to measure the fair values of beneficiary certificates are not disclosed as they are based on prices quoted by asset management companies.

(In millions of won)	2015		
	Fair value	Valuation techniques	Inputs
Financial assets			
Trading assets	₩ 120,355	Discounted cash flow, option pricing model	Price of underlying assets, discount rate, volatility
Financial assets designated at fair value through profit or loss	39,550	Discounted cash flow, option pricing model	Price of underlying assets, discount rate, volatility
Available-for-sale financial assets (*)	5,858,357	Discounted cash flow, option pricing model, net asset value	Discount rate
Investments in associates and subsidiaries (Beneficiary certificate) (*)	300,194	Net asset value	Not applicable
Hedging derivatives	11,178	Discounted cash flow	Discount rate, foreign exchange rate
	6,329,634		
Financial liabilities			
Financial liabilities designated at fair value through profit or loss	4,280	Discounted cash flow	Discount rate, foreign exchange rate
Hedging derivatives	95,336	Discounted cash flow	Discount rate, foreign exchange rate
	₩ 99,616		

(*) Valuation inputs to measure the fair values of beneficiary certificates are not disclosed as they are based on prices quoted by asset management companies.management companies.

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(6) Disclosure about financial instruments classified as level 3

i) Changes in level 3 of the fair value hierarchy for the periods ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016				
	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Investments in associates and subsidiaries [1]	Financial liabilities at fair value through profit or loss
Beginning balance	₩ 30,074	₩ 519,090	₩ 1,575,533	₩ 93,789	₩ 1,431
Total income (loss)					
Profit or loss	243	(3,091)	2,096	653	(1,428)
Other comprehensive income	-	-	29,028	1,095	-
Purchase	-	161,985	704,935	47,974	-
Settlement	(30,000)	(80,161)	(232,081)	(5,874)	-
Reclassification from other levels to level 3 [2]	-	-	57,785	-	-
	₩ 317	₩ 597,823	₩ 2,137,296	₩ 137,637	₩ 3

[1] Fair-value-measured beneficiary certificates that are consolidated

[2] Amounts related to equity securities that were measured at acquisition costs on the prior period and measured at fair value on this period.

(In millions of won)	2015				
	Trading assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Investments in associates and subsidiaries [1]	Financial liabilities at fair value through profit or loss
Beginning balance	₩ 29,584	₩ 352,678	₩ 1,184,776	₩ 80,314	₩ 2,182
Total income (loss)					
Profit or loss	57	(1,859)	6,868	2,903	(751)
Other comprehensive income	-	-	40,411	310	-
Purchase	-	263,084	487,112	38,138	-
Settlement	-	(94,813)	(149,501)	(27,876)	-
Reclassification from level 3 to other levels [2]	-	-	(31,967)	-	-
Reclassification from other levels to level 3 [3]	433	-	38,959	-	-
Others	-	-	(1,125)	-	-
	₩ 30,074	₩ 519,090	₩ 1,575,533	₩ 93,789	₩ 1,431

[1] Fair-value-measured beneficiary certificates that are consolidated

[2] The amount of equity securities that goes public on this period.

[3] Amounts related to equity securities that were measured at acquisition costs on the prior period and measured at fair value on this period.

NOTES TO SEPARATE FINANCIAL STATEMENTS

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ii) Inputs unobservable in markets

Information about significant unobservable inputs in measuring financial instruments categorized as level 3 as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016				
	Fair value	Valuation techniques	Significant unobservable input	Range of estimates for unobservable input (%)	Fair value measurement sensitivity to unobservable input
Financial assets					
Trading assets	₩ 317	Discounted cash flow, option pricing model	The volatility of the underlying asset	31.579	A significant increase in volatility would result in a greater change in fair value
			Correlations	8.6	A significant increase in correlations would result in a greater change in fair value
Financial assets designated at fair value through profit or loss	597,823	Discounted cash flow, option pricing model	The volatility of the underlying asset	5.84~40.80	A significant increase in volatility would result in a greater change in fair value
			Correlations	8.6~90.00	A significant increase in correlations would result in a greater change in fair value
			Recovery ratio	40	A significant increase in recovery ratio would result in a higher fair value.
Available-for-sale financial assets (*)	2,137,296	Discounted cash flow, option pricing model, net asset method	Discount rate	6.76~14.39	A significant increase in discount rate would result in a lower fair value.
			Growth rate	0.0~6.5	A significant increase in growth rate would result in a higher fair value
			The volatil-ity of the underlying asset	23.82~40.8	A significant increase in volatility would result in a
			Correlations	85.24~89.38	A significant increase in correlations would result in a greater change in fair value
Investments in associates and subsidiaries (Beneficiary certificate) (*)	137,637	Net asset method	Not applicable	Not applicable	Not applicable
	2,873,073				
Financial liabilities					
Financial liabilities at fair value through profit or loss	₩ 3	Option pricing model	The volatility of the underlying asset	27~37.95	A significant increase in volatility would result in a greater change in fair value

(*) Valuation inputs to measure the fair values of beneficiary certificates are not disclosed as they are based on prices quoted by asset management companies.

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(In millions of won)	2015				
	Fair value	Valuation techniques	Significant unobservable input	Range of estimates for unobservable input (%)	Fair value measurement sensitivity to unobservable input
Financial assets					
Trading assets	₩ 30,074	Discounted cash flow, option pricing model	The volatility of the underlying asset	5.39~40.50	A significant increase in volatility would result in a greater change in fair value.
			Correlations	17.33	A significant increase in correlations would result in a greater change in fair value.
Financial assets designated at fair value through profit or loss	519,090	Discounted cash flow, option pricing model	The volatility of the underlying asset	10.57~50.14	A significant increase in volatility would result in a greater change in fair value.
			Correlations	17.33~90.00	A significant increase in correlations would result in a greater change in fair value.
			Recovery ratio	40	A significant increase in recovery ratio would result in a higher fair value.
Available-for-sale financial assets (*)	1,575,533	Discounted cash flow, option pricing model, net asset method	Discount rate	0.85~10.13	A significant increase in discount rate would result in a lower fair value.
			Growth rate	1.80~6.42	A significant increase in growth rate would result in a higher fair value
			The volatility of the underlying asset	34.90~50.14	A significant increase in volatility would result in a greater change in fair value.
			Correlations	48.27~87.94	A significant increase in correltions would result in a greater change in fair value.
Investments in associates and subsidiaries (Beneficiary certificate) (*)	93,789	Net asset method	Not applicable	Not applicable	Not applicable
	2,218,486				
Financial liabilities					
Financial liabilities at fair value through profit or loss	₩ 1,431	Option pricing model	The volatility of the underlying asset	34.90~37.20	A significant increase in volatility would result in a greater change in fair value.

(*) Valuation inputs to measure the fair values of beneficiary certificates are not disclosed as they are based on prices quoted by asset management companies.

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iii) Sensitivity to changes in unobservable inputs.

Sensitive analysis of changes in unobservable inputs as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016			
	Favorable change		Unfavorable change	
	Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income
Financial Assets				
Financial assets at fair value through profit or loss [1]	₩ 2,408	₩ -	₩ (2,357)	₩ -
Available-for-sale financial assets [2]	-	3,078	-	(2,644)
	2,408	3,078	(2,357)	(2,644)
Financial liabilities				-
Financial liabilities at fair value through profit or loss [3]	₩ -	₩ -	₩ -	₩ -

[1] Based on increase or decrease in volatility of underlying assets (1%), correlation (1% or 10%) or recovery ratio (1%)

[2] Based on increase or decrease of discount rate (1%), growth rate (10%), correlation (10%), volatility of underlying assets (1%), EV/EBITDA (10%) or EV/Sales (10%).

[3] Based on increase or decrease in volatility of underlying assets (1%).

(In millions of won)	2015			
	Favorable change		Unfavorable change	
	Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income
Financial Assets				
Financial assets at fair value through profit or loss [1]	₩ 1,530	₩ -	₩ (1,544)	₩ -
Available-for-sale financial assets [2]	-	2,919	-	(2,304)
	1,530	2,919	(1,544)	(2,304)
Financial liabilities				
Financial liabilities at fair value through profit or loss [3]	₩ 29	₩ -	₩ (32)	₩ -

[1] Based on increase or decrease in volatility of underlying assets (1%), correlation (1% or 10%) or recovery ratio (1%)

[2] Based on increase or decrease of discount rate (1%), growth rate (10%), correlation (10%), volatility of underlying assets (1%), EV/EBITDA (10%) or EV/Sales (10%).

[3] Based on increase or decrease in volatility of underlying assets (1%).

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(7) Offsetting financial assets and financial liabilities

Details of financial assets and financial liabilities subject to offsetting, enforceable master netting agreements and similar agreements as of December 31, 2015 and 2014, are as follows:

(In millions of won)	2016					
	Financial assets and liabilities recognized	Offsetting financial assets and liabilities recognized	Financial assets and liabilities recognized after offset	Amount not offsetting in the statements of financial position		Net amounts
				Financial instruments	Cash collateral received	
Financial assets						
Financial assets at fair value through profit or loss	₩ 56	₩ -	₩ 56	₩ (56)	₩ -	₩ -
Hedging derivatives	6,145	-	6,145	(6,145)	-	-
	6,201	-	6,201	(6,201)	-	-
Financial liabilities						
Financial liabilities at fair value through profit or loss	8,320	-	8,320	(56)	-	8,264
Hedging derivatives	147,320	-	147,320	(6,145)	-	141,175
	₩ 155,640	₩ -	₩ 155,640	₩ (6,201)	₩ -	₩ 149,439

(In millions of won)	2015					
	Financial assets and liabilities recognized	Offsetting financial assets and liabilities recognized	Financial assets and liabilities recognized after offset	Amount not offsetting in the statements of financial position		Net amounts
				Financial instruments	Cash collateral received	
Financial assets						
Financial assets at fair value through profit or loss	₩ 281	₩ -	₩ 281	₩ (281)	₩ -	₩ -
Hedging derivatives	11,178	-	11,178	(11,178)	-	-
	11,459	-	11,459	(11,459)	-	-
Financial liabilities						
Financial liabilities at fair value through profit or loss	4,280	-	4,280	-	-	4,280
Hedging derivatives	95,336	-	95,336	(11,459)	-	83,877
	₩ 99,616	₩ -	₩ 99,616	₩ (11,459)	₩ -	₩ 88,157

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6. Profit or loss and other comprehensive income of financial instruments

Profit or loss and other comprehensive income of financial instruments by categories for the periods ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016								
	Profit or loss								
	Interest income (expense)	Dividend income	Gain (loss) on disposal	Gain (loss) on valuation	Impairment loss	Foreign currency transaction gain (loss)	Fees and commission income (expense)	Total	Other comprehe-nsive income
Cash and cash equivalents	₩ 2,667	₩ -	₩ -	₩ -	₩ -	₩ 19	₩ -	₩ 2,686	₩ -
Trading assets	1,498	19	2,256	(6,868)	-	-	-	(3,095)	-
Financial assets designated at fair value through profit or loss	18,808	-	(5,224)	(2,447)	-	8,360	(1,194)	18,303	-
Available-for-sale financial assets	231,253	105,712	56,695	-	(48,823)	109,141	10	453,988	(90,955)
Held-to-maturity financial assets	82,311	-	-	-	-	4,747	-	87,058	-
Investments in associates and subsidiaries[1]	-	21,682	(225)	-	-	551	-	22,008	(526)
Hedging derivatives	-	-	25,445	(128,547)	-	-	-	(103,102)	218
Loans and other receivables	289,928	-	37	-	(36,659)	2,113	2,574	257,993	-
Financial liabilities	(288)	-	-	-	-	(475)	-	(763)	-
	₩ 626,177	₩127,413	₩ 78,984	₩(137,862)	₩ (85,482)	₩ 124,456	₩ 1,390	₩ 735,076	₩ 91,263

[1] Fair-value-measured beneficiary certificates

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(In millions of won)	2015								
	Profit or loss								
	Interest income (expense)	Dividend income	Gain (loss) on disposal	Gain (loss) on valuation	Impairment loss	Foreign currency transaction gain (loss)	Fees and commission income (expense)	Total	Other comprehe-nsive income
Cash and cash equivalents	₩ 1,937	₩ -	₩ -	₩ -	₩ -	₩ 1,045	₩ -	₩ 2,982	₩ -
Trading assets	755	715	4,765	(3,749)	-	-	-	2,486	-
Financial assets designated at fair value through profit or loss	15,754	-	(1,582)	(7,883)	-	7,405	(1,757)	11,937	-
Available-for-sale financial assets	214,611	64,376	61,263	-	(18,318)	146,940	43	468,915	45,294
Held-to-maturity financial assets	65,657	-	942	-	-	2,896	-	69,495	-
Investments in associates and subsidiaries[1]	-	20,244	251	-	(12,026)	-	-	8,469	(904)
Hedging derivatives	-	-	(50,374)	(92,418)	-	-	-	(142,792)	(661)
Loans and other receivables	302,157	-	(24)	-	(10,855)	17,378	1,560	310,216	-
Financial liabilities	(518)	-	-	-	-	(146)	-	(664)	-
	₩ 600,353	₩ 85,335	₩ 15,241	₩(104,050)	₩ (41,199)	₩ 175,518	₩ (154)	₩731,044	₩ 43,729

[1] Fair-value-measured beneficiary certificates

7. Cash and cash equivalents

Cash and cash equivalents as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Checking account	₩ 975	₩ 513
Demand deposits	12,670	23,435
Deposits in foreign currency	46,914	129,708
Others	717,459	535,556
	₩ 778,018	₩ 689,212

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

8. Financial assets at fair value through profit or loss

(1) Trading assets

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

(In millions of won)	2016	2015
Equity securities[1]		
Stocks	₩ 971	₩ 2,124
Debt securities[2]		
Government and public bonds	94,956	-
Beneficiary certificates[3]		
Debt type	24	-
Others	240,138	120,073
Other securities[4]		
Derivative Linked Securities (DLS)	-	19,707
Derivative Linked Bonds (DLB)	-	10,203
Trading derivatives[5]	373	446
	₩ 336,462	₩ 152,553

[1] Fair values of listed securities are closing prices in the stock market at the end of reporting period.
[2] Fair values of debt securities are the average of valuation prices provided by the KIS bond valuation Inc. and NICE P&I Inc.
[3] Fair values of beneficiary certificates are based on prices quoted by asset management companies.
[4] Fair values of other financial instruments are the average of valuation prices provided by the KIS bond valuation Inc. and NICE P&I Inc.
[5] Fair values of trading derivatives are the average of valuation prices provided by the KIS bond valuation Inc. and NICE P&I Inc.

(2) Financial assets designated at fair value through profit or loss

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

(In millions of won)	2016	2015
Securities in foreign currency[1]		
Hybrid securities	₩ 249,159	₩ 105,878
Others	61,679	59,965
Other securities[1]		
Equity Linked Securities (ELS)	-	44,692
Equity Linked Bonds (ELB)	20,455	20,044
Derivative Linked Securities (DLS)	179,108	202,282
Derivative Linked Bonds (DLB)	66,031	61,460
Others	64,505	64,319
	₩ 640,937	₩ 558,640

[1] Fair values of securities of foreign currencies and other securities are the average of valuation prices provided by the KIS bond valuation Inc. and NICE P&I Inc.

Financial assets above are the hybrid financial instrument that includes one or more embedded derivatives. The Company designates the entire instrument at fair value through profit or loss.

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

9. Available-for-sale financial assets

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

(In millions of won)	2016	2015
Equity securities[1]		
Listed equity securities	₩ 67,598	₩ 172,250
Unlisted equity securities	75,805	76,192
Investments in partnerships	188,100	183,953
	331,503	432,395
Debt securities[2]		
Government and public bonds	413,370	789,317
Special bonds	1,219,082	1,214,713
Bank debenture	649,067	638,907
Corporate bonds	1,361,001	1,142,120
	3,642,520	3,785,057
Beneficiary certificates[3]		
Debt type	149,800	-
Stock type	50,387	160,785
Mixed type	53,976	21,462
Others	1,379,422	926,329
	1,633,585	1,108,576
Securities in foreign currency[4]		
Stock	3,731	5,310
Investments in partnerships	89,104	80,762
Debt securities	2,927,219	2,334,380
Others	803,486	539,202
	3,823,540	2,959,654
Other securities[5]		
Others	177,680	274,756
	₩ 9,608,828	₩ 8,560,438

[1] Fair values of listed securities are quoted closing prices of the stock market at the end of reporting period. Except for those that are unable to reliably measure the fair values and therefore are assessed at their acquisition costs, the fair values of unlisted securities and investments are determined based on the Korea Asset Pricing, KIS bond valuation Inc. or NICE P&I Inc.
[2] Available-for-sales debt securities' fair values are the average of valuation prices provided by the KIS bond valuation Inc. and NICE P&I Inc.
[3] Fair values of beneficiary certificates are based on prices quoted by asset management companies or valuation prices of independent valuation companies.
[4] Fair values of investments in partnerships are measured by net asset value. Debt securities' fair value is the average of valuation prices provided by the KIS bond valuation Inc. and NICE P&I Inc. Debt securities owned by the U.S branch is the posted price or valuation price by independent valuation companies.
[5] Fair values of other securities are measured based on posted prices, valuation prices by independent valuation companies or based on prices quoted by asset management companies..

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

10. Held-to-maturity financial assets

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

(In millions of won)	2016	2015
Debt securities		
Government and public bonds	₩ 2,292,686	₩ 1,513,259
Special bonds	1,009,656	486,704
Bank debenture	59,311	59,060
Corporate bonds	40,000	40,000
Securities in foreign currency		
Bank debenture	142,013	46,880
	₩ 3,543,666	₩ 2,145,903

11. Loans and other receivables

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

(In millions of won)	2016	2015
Loans		
Policy loans	₩ 1,753,197	₩ 1,507,256
Loans secured by real estate	2,479,737	2,709,710
Unsecured loans	271,083	214,151
Loans secured by third party guarantees	27,371	29,967
Other loans	2,304,599	2,265,860
Deferred loan origination fees and costs	13,289	17,306
Allowance for credit loss	(58,816)	(31,157)
	6,790,460	6,713,093
Other receivables		
Due from banks	68,122	278,760
Insurance accounts receivables	290,238	274,077
Accounts receivables	87,326	79,402
Accrued revenue	115,319	99,428
Notes receivables	103	374
Guarantee deposits	85,926	88,390
Deposits in court	6,977	2,316
Present value discount	(1,515)	(2,098)
Allowance for credit loss	(18,268)	(16,330)
	634,228	804,319
	₩ 7,424,688	₩ 7,517,412

Due from banks as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Deposit money	₩ 31,803	₩ 61,876
Foreign currency deposits	36,255	216,820
Specific deposits	64	64
	₩ 68,122	₩ 278,760

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

(In millions of won)	2016	2015	Descriptions
Specific deposits	₩ 64	₩ 64	Deposits for the opening checking accounts
	₩ 64	₩ 64	

Insurance accounts receivables as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Insurance receivable	₩ 47,829	₩ 49,151
Due from agents	7,113	3,206
Co-insurance receivable	14,279	13,144
Receivables related to agency business	17,996	25,078
Reinsurance accounts receivable	106,732	88,561
Overseas reinsurance premiums receivable	94,803	93,492
Deposits on reinsurance treaty ceded	1,486	1,445
	₩ 290,238	₩ 274,077

Changes in allowance of credit loss of the loans and other receivables for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016			2015		
	Loans	Other Receivables	Total	Loans	Other Receivables	Total
Beginning balance	₩ 31,157	₩ 16,330	₩ 47,487	₩ 27,853	₩ 16,371	₩ 44,224
Increase						
Impairment loss	34,721	1,940	36,661	10,673	348	11,021
Recoveries from written-off loans	935	-	935	697	1	698
Decrease						
Reversal	-	1	1	-	(164)	(164)
Written-offs	9,401	-	9,401	(6,954)	(226)	(7,180)
Others	(1,404)	-	(1,404)	(1,112)	-	(1,112)
Ending balance	₩ 58,816	₩ 18,269	₩ 77,085	₩ 31,157	₩ 16,330	₩ 47,487

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

(In millions of won)	2016	2015
Beginning balance	₩ 17,306	₩ 16,119
Increase	5,705	13,780
Decrease	(9,722)	(12,593)
Ending balance	₩ 13,289	₩ 17,306

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

12. Investments in associates and subsidiaries

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

(In millions of won) Investees	Location	2016 Book value	2016 Owner ship (%)	2015 Book value	2015 Owner ship (%)
Investments in subsidiaries					
Leading Insurance Services, Inc.	United States	₩ 4,439	100.00	₩ 4,439	100.00
KB Insurance (China) Co., Ltd	China	36,623	100.00	36,623	100.00
PT. KB Insurance Indonesia Inc.	Indonesia	12,215	70.00	12,215	70.00
KB Claims Survey & Adjusting Co., Ltd	Korea	7,654	100.00	7,654	100.00
KB Sonbo CNS Co., Ltd	Korea	302	100.00	302	100.00
KB Golden Life Care Co., Ltd	Korea	20,000	100.00	-	-
KB SmartStepUp 3rd	Korea	-	-	9,819	100.00
KB SmartStepUp 4th	Korea	-	-	9,816	100.00
KB HopePartner 1st	Korea	49,130	100.00	50,435	100.00
Daishin Forte Alpha Private Fund 30th	Korea	10,077	100.00	10,032	100.00
Daishin Forte Alpha Private Fund 31th	Korea	20,225	100.00	20,124	100.00
Daishin Forte Alpha Private Fund 32th	Korea	10,037	100.00	9,991	100.00
Daishin Forte Alpha Private Fund 33th	Korea	10,037	100.00	9,991	100.00
Daishin Forte Alpha Private Fund 36th	Korea	10,228	100.00	9,881	100.00
Daishin Forte Alpha Private Fund 43th	Korea	10,053	100.00	9,975	100.00
Daishin Forte Alpha Private Fund 44th	Korea	10,036	100.00	10,098	100.00
Dongbu Private Fund 16th	Korea	35,340	89.52	35,274	89.52
Mirae Asset Triumph Private Fund 38th	Korea	49,239	100.00	50,000	100.00
Shinhan BNPP Private Fund 42th	Korea	49,184	100.00	50,000	100.00
Hana Landchip Realestate Private Fund 58th	Korea	15,419	99.99	14,034	99.99
Hanhwa Private Fund 86th	Korea	-	-	50,034	99.99
Hyundai Aviation Private Fund 3rd	Korea	19,372	99.96	21,076	99.96
Hyundai Power Private Fund 3rd	Korea	23,592	99.95	23,403	99.95
Hyundai Power Professional Investment Type Private Investment Trust No.4	Korea	43,913	99.77	-	-
KB U.S. LongShort Private Securities Fund 1	Korea	20,159	99.50	-	-
		467,274		455,216	
Investments in associates [1]					
Kocref Cr-reit XI	Korea	-		9,133	10.00
		-		9,133	
		₩ 467,274		₩ 464,349	

[1] Even if the ownership on the investee is less than 20%, as the Parent Company has material influence over the associates by participating in decision-making process, it is classified as investments in associates.

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

13. Derivatives

(1) The notional amounts of derivatives as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Trading		
Currency forwards	₩ 265,870	₩ 164,080
Currency swaps	48,340	-
Other	6,593	6,593
	320,803	170,673
Fair value hedge		
Currency forwards	2,770,043	2,726,071
Currency swaps	-	21,638
	2,770,043	2,747,709
Cash flow hedge		
Currency swaps	891,937	150,022
Interest rate related	63,446	46,880
	₩ 955,383	₩ 196,902

(2) Fair value of derivative instruments as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016 Assets	2016 Liabilities	2015 Assets	2015 Liabilities
Trading				
Currency forwards	₩ 56	₩ 7,368	₩ 281	₩ 4,280
Currency swaps	-	952	-	-
Other	317	3	165	1,430
	373	8,323	446	5,710
Hedge				
Currency forwards	6,135	92,335	5,796	89,950
Currency swaps	(55)	54,557	5,030	5,386
Interest rate related	65	428	352	-
	6,145	147,320	11,178	95,336
	₩ 6,518	₩ 155,643	₩ 11,624	₩ 101,046

(3) Gains and losses on valuation of derivatives for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016 Gain	2016 Loss	2015 Gain	2015 Loss
Profit or loss				
Currency forwards	₩ 6,209	₩ 86,536	₩ 6,126	₩ 93,528
Currency swaps	14	55,634	1	8,957
Other	1,580	-	751	779
Credit risk adjustment	55	17	34	92
	7,858	142,187	6,912	103,356
Accumulated other comprehensive income				
Currency swaps	1,642	881		(253)
Interest rate related	(218)	325	(675)	-
	1,424	1,206	267	(253)
	₩ 9,282	₩ 143,393	₩ (408)	₩ 103,103

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

(4) Hedge accounting

(a) At the end of reporting period, in order to mitigate the risk of change in fair value and risk of change in cash flows of foreign currency bonds caused by changes in exchange rate and interest rate, the Company entered into a currency forward and currency swap contract.

(b) Fair value hedge

Details of valuation gains or losses in fair value hedge accounting for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2015		2014	
	Gain	Loss	Gain	Loss
Hedging instrument				
Currency forwards	₩ 6,149	₩ 80,060	₩ 5,795	₩ 89,248
Currency swaps		-	-	1,452
	6,149	80,060	5,795	90,700
Hedged item				
Available-for-sale financial assets	79,558	6,053	79,017	5,407
Held-to-maturity financial assets	-	-	1,294	-
Loans	-	-	1,452	-
Others receivables	503	96	8,937	428
	₩ 80,061	₩ 6,149	₩ 90,700	₩ 5,835

(c) Cash flow hedge

① Details of expected cash flow of cash flow hedge accounting as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016					
	1 month or less	3 months or less	1 year or less	5 years or less	More than 5 years	Total
Cash flow of derivatives settled in net amounts	₩ 76	₩ 44	₩ 225	₩ (746)	₩ -	₩ (401)
Cash inflow of derivatives settled in gross amounts	2,209	5,345	453,229	462,835	-	923,618
Cash outflow of derivatives settled in gross amounts	₩ 2,472	₩ 5,931	₩ 486,277	₩ 488,957	₩ -	₩ 983,637

(In millions of won)	2015					
	1 month or less	3 months or less	1 year or less	5 years or less	More than 5 years	Total
Cash flow of derivatives settled in net amounts	₩ 204	₩ 74	₩ 305	₩ (232)	₩ -	₩ 351
Cash inflow of derivatives settled in gross amounts	67	25,395	37,898	94,108	6,955	164,423
Cash outflow of derivatives settled in gross amounts	₩ 53	₩ 20,478	₩ 39,255	₩ 96,384	₩ 7,140	₩ 163,310

② Regarding cash flow hedges, the expected maximum period exposed to risk of change in cash flow is up to July 15, 2021. The expected amount of profit or loss on valuation of derivative instruments that will be reclassified from accumulated other comprehensive income to profit or loss within one year upon maturity are ₩1,772 million in profit and ₩803 million in loss.

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

(d) The amounts reclassified from equity to profit or loss and the ineffective portion of the gain or loss on the hedging instrument recognized in profit or loss for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016		2015	
	Realization	Ineffective	Realization	Ineffective
Currency swaps	₩ (54,188)	₩ (119)	₩ (7,039)	₩ (29)

14. Reinsurance assets

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

(In millions of won)	2016		
	Beginning balance	Net increase (decrease)[1]	Ending balance
Reserve for outstanding claims			
General insurance	₩ 416,333	₩ (937)	₩ 415,396
Automobile insurance	16,803	(911)	15,892
Long-term insurance	62,578	21,360	83,938
	495,714	19,512	515,226
Unearned premium reserve			
General insurance	204,101	(5,986)	198,115
Automobile insurance	17,292	585	17,877
	221,393	(5,401)	215,992
Total reinsurance assets	717,107	14,111	731,218
Allowance for impairment	663	256	919
Total reinsurance assets, net	₩ 716,444	₩ 13,855	₩ 730,299

[1] Gain or loss on foreign currency translation of overseas branches, ₩ 302 million, is included.

(In millions of won)	2015		
	Beginning balance	Net increase (decrease)[2]	Ending balance
Reserve for outstanding claims			
General insurance	₩ 476,217	₩ (59,884)	₩ 416,333
Automobile insurance	25,230	(8,427)	16,803
Long-term insurance	54,746	7,832	62,578
	556,193	(60,479)	495,714
Unearned premium reserve			
General insurance	211,409	(7,308)	204,101
Automobile insurance	26,581	(9,289)	17,292
	237,990	(16,597)	221,393
Total reinsurance assets	794,183	(77,076)	717,107
Allowance for impairment	741	(78)	663
Total reinsurance assets, net	₩ 793,442	₩ (76,998)	₩ 716,444

[2] Gain or loss on foreign currency translation of overseas branches, ₩ 11,616 million, is included.

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

15. Investment property

Investment property as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Land		
Acquisition costs	₩ 114,953	₩ 112,196
Building		
Acquisition costs	277,273	279,013
Accumulated depreciation	(62,782)	(57,473)
	₩ 214,491	₩ 221,540

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

(In millions of won)	2016			
	Beginning balance	Depreciation[1]	Transfer to property and equipment	Ending balance
Land	₩ 112,196	₩ -	₩ 2,757	₩ 114,953
Building	221,540	(6,912)	(137)	214,491
	₩ 333,736	₩ (6,912)	₩ 2,620	₩ 329,444

[1] Depreciation expenses on investment properties are included in maintenance expenses for real estate.

(In millions of won)	2015			
	Beginning balance	Depreciation[1]	Transfer to property and equipment	Ending balance
Land	₩ 92,444	₩ -	₩ 19,752	₩ 112,196
Building	223,303	(6,912)	5,149	221,540
	₩ 315,747	₩ (6,912)	₩ 24,901	₩ 333,736

[1] Depreciation expenses on investment properties are included in maintenance expenses for real estate.

Fair value of investment properties is appraised by independent certified public appraisers. Fair value of investment property as of December 31, 2016 and 2015, were as follows:

(In millions of won)	2016		2015	
	Land	Building	Land	Building
Fair value				
Carrying value	₩ 144,119	₩ 194,446	₩ 119,891	₩ 216,170
Difference	114,953	214,491	112,196	221,540
	₩ 29,166	₩ (20,045)	₩ 7,695	₩ (5,370)

Rent income and expense on investment property for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Rent income	₩ 20,445	₩ 20,678
Operating expenses related to investment property	19,232	15,827

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

16. Property and equipment

Property and equipment as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016		
	Acquisition costs	Accumulated depreciation	Carrying value
Land	₩ 182,906	₩ -	₩ 182,906
Building	630,690	146,213	484,477
Structure	24,388	4,408	19,980
Equipment	155,300	114,211	41,089
Vehicles	329	276	53
Others	878	396	482
Construction in progress	88	-	88
	₩ 994,579	₩ 265,504	₩ 729,075

(In millions of won)	2015		
	Acquisition costs	Accumulated depreciation	Carrying value
Land	₩ 186,278	₩ -	₩ 186,278
Building	662,073	135,886	526,187
Structure	745	220	525
Equipment	156,401	110,955	45,446
Vehicles	376	298	78
Others	792	425	367
	₩ 1,006,665	₩ 247,784	₩ 758,881

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

(In millions of won)	2016							
	Beginning balance	Acquisition	Disposal	Depreciation[1]	Transfer from(to) investment	Other	Assets held for sale	Ending balance
Land	₩ 186,278	₩ 3,534	₩ (279)	₩ -	₩ (2,757)	₩ -	₩ (3,870)	₩ 182,906
Building	526,186	2,176	(2,551)	(16,171)	137	(20,897)	(4,403)	484,477
Structure	525	-	-	(1,442)	-	20,897	-	19,980
Equipment	45,447	9,779	(254)	(13,883)	-	-	-	41,089
Vehicles	78	-	(4)	(21)	-	-	-	53
Others	367	-	-	(457)	-	572	-	482
Construction in progress	-	88	-	-	-	-	-	88
	₩ 758,881	₩ 15,577	₩ (3,088)	₩ (31,974)	₩ (2,620)	₩ 572	₩ (8,273)	₩ 729,075

[1] Depreciation expenses are included in insurance operating expenses, administrative expenses for asset and claim survey expenses paid.

(In millions of won)	2015						
	Beginning balance	Acquisition	Disposal	Depreciation[1]	Transfer from(to) investment	Other	Ending balance
Land	₩ 206,154	₩ 7	₩ (131)	₩ -	₩ (19,752)	₩ -	₩ 186,278
Building	548,964	684	(1,471)	(16,842)	(5,149)	-	526,186
Structure	576	-	-	(51)	-	-	525
Equipment	49,699	11,894	(381)	(15,765)	-	-	45,447
Vehicles	28	76	-	(26)	-	-	78
Others	467	-	-	(438)	-	338	367
	₩ 805,888	₩ 12,661	₩ (1,983)	₩ (33,122)	₩ (24,901)	₩ 338	₩ 758,881

[1] Depreciation expenses are included in insurance operating expenses, administrative expenses for asset and claim survey expenses paid.

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

17. Insured assets

The details of buildings and equipment insured against fire and other casualty as of December 31, 2016 and 2015, are summarized as follows:

(In millions of won)	2016	
	Amount insured	Insurance company
Building [1]	₩ 1,069,767	Samsung Fire Marine Insurance Co., Ltd
Equipment	113,125	
	₩ 1,182,892	

(In millions of won)	2015	
	Amount insured	Insurance company
Building [1]	₩ 1,071,903	Samsung Fire Marine Insurance Co., Ltd
Equipment	120,278	
	₩ 1,192,181	

[1] Building classified as property and equipment and investment property are both included.

Beside the assets above, the Company subscribes directors and officers liability insurance and gas accidents liability insurance from Samsung Fire & Marine Insurance Co., Ltd. The company also subscribes performance guarantee insurance etc. from Seoul Guarantee Insurance Co., Ltd.

18. Intangible assets

Intangible assets as of December 31, 2016 and 2015, were as follows:

(In millions of won)	2016			
	Acquisition costs	Accumulated amortization	Accumulated impairment	Carrying value
Membership	₩ 21,872	₩ -	₩ 6,600	₩ 15,272
Software	41,670	33,287	-	8,383
Development cost	132,657	119,890	-	12,767
Others	30	-	-	30
	₩ 196,229	₩ 153,177	₩ 6,600	₩ 36,452

(In millions of won)	2015			
	Acquisition costs	Accumulated amortization	Accumulated impairment	Carrying value
Membership	₩ 29,701	₩ -	₩ 11,019	₩ 18,682
Software	37,561	28,581	-	8,980
Development cost	123,412	111,274	-	12,138
Others	38	-	-	38
	₩ 190,712	₩ 139,855	₩ 11,019	₩ 39,838

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

(In millions of won)	2016						
	Beginning balance	Acquisitions	Transfer	Disposal	Amortization[1]	Impairment	Ending balance
Membership	₩ 18,682	₩ 4,296	₩ -	₩ (7,577)	₩ -	₩ (129)	₩ 15,272
Software	8,980	2,974	263	-	(3,834)	-	8,383
Development cost	12,138	5,108	631	-	(5,110)	-	12,767
Other	38	-	-	(8)	-	-	30
	₩ 39,838	₩ 12,378	₩ 894	₩ (7,585)	₩ (8,944)	₩ (129)	₩ 36,452

NOTES TO SEPARATE FINANCIAL STATEMENTS

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(In millions of won)	2015						
	Beginning balance	Acquisitions	Transfer	Disposal	Amortization[1]	Impairment	Ending balance
Membership	₩ 19,334	₩ 2,375	₩ -	₩ (1,710)	₩ -	₩ (1,317)	₩ 18,682
Software	9,229	3,385	-	-	(3,634)	-	8,980
Development cost	14,247	2,711	593	-	(5,413)	-	12,138
Other	-	38	-	-	-	-	38
	₩ 42,810	₩ 8,509	₩ 593	₩ (1,710)	₩ (9,047)	₩ (1,317)	₩ 39,838

[1] Amortization expenses are included in other expenses.

Intangible assets with indefinite useful life as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Condo memberships	₩ 4,955	₩ 5,176
Golf memberships	9,957	13,146
Others	360	360
	₩ 15,272	₩ 18,682

19. Assets held-for-sale

The assets classified as held for sale as of December 31, 2016 and 2015 are as follows[1]:

(In millions of won)	2016	2015
Investments in subsidiaries [2]	₩ -	₩ 128,830
Equipment and properties[3]	4,048	-

[1] Assets held for sale are measured at the lower of carrying amount and fair value less cost of disposal.

[2] The Company decided to sell LIG Investment & Securities Co., Ltd on December 22, 2015, with approval of the board of directors, and therefore the assets related to LIG Investment & Securities Co., Ltd are recognized as assets held for sale as of December 31, 2015. The sale is completed on June 21, 2016.

[3] The Company classified certain equipment and properties as assets held for sale. The disposal of the assets held for sale was completed during January 2017.

20. Deferred acquisition costs

Changes in the deferred acquisition costs for the years ended December 31, 2016 and 2015, are as follows.

(In millions of won)	2016					
	Beginning balance	Expenditure			Decrease	Ending balance
		Total	Expensed	Deferred		
Pension	₩ 43,851	₩ 4,011	₩ 773	₩ 3,238	₩ 19,654	₩ 27,435
Long-term insurance	1,611,003	711,782	44,330	667,452	636,233	1,642,222
	₩ 1,654,854	₩ 715,793	₩ 45,103	₩ 670,690	₩ 655,887	₩ 1,669,657

(In millions of won)	2015					
	Beginning balance	Expenditure			Decrease	Ending balance
		Total	Expensed	Deferred		
Pension	₩ 64,080	₩ 6,063	₩ 2,058	₩ 4,005	₩ 24,234	₩ 43,851
Long-term insurance	1,542,511	741,985	43,680	698,305	629,813	1,611,003
	₩ 1,606,591	₩ 748,048	₩ 45,738	₩ 702,310	₩ 654,047	₩ 1,654,854

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

21. Other assets

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

(In millions of won)	2016	2015
Compensation receivables	₩ 32,344	₩ 31,857
Prepaid expenses	6,257	10,040
Advance payments	2,608	5,125
	₩ 41,209	₩ 47,022

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

(In millions of won)	2016			2015		
	Beginning balance	Increase (Decrease)	Ending balance	Beginning balance	Increase (Decrease)	Ending balance
General insurance	₩ 3,869	₩ (481)	₩ 3,388	₩ 6,236	₩ (2,367)	₩ 3,869
Automobile insurance	25,627	789	26,416	24,488	1,139	25,627
Long-term insurance	2,361	179	2,540	1,917	444	2,361
	₩ 31,857	₩ 487	₩ 32,344	₩ 32,641	₩ (784)	₩ 31,857

22. Assets provided as collateral

Assets provided as collateral as of December 31, 2016 and 2015, are as follows:

(In millions of won)	Collateral provided to	2016	2015	Remark
Government and public bonds	Industrial Bank and 7 others	₩ 503,893	₩ 406,898	Swap contract
	ANZ Bank	45,157	47,578	Reinsurance contract
		₩ 549,050	₩ 454,476	

23. Insurance liabilities

(1) Changes in the insurance liabilities for the years ended December 31, 2016 and 2015 were as follows:

(In millions of won)	2016		
	Beginning balance	Net increase (decrease) [1]	Ending balance
Long-term insurance premium reserve:			
Long-term insurance contract	₩ 17,020,163	₩ 1,798,901	₩ 18,819,064
Long-term investment contract	115,062	(2,240)	112,822
	17,135,225	1,796,661	18,931,886
Reserve for outstanding claims:			
General insurance	849,550	(51,801)	797,749
Automobile insurance	397,024	41,452	438,476
Long-term insurance	651,899	135,089	786,988
	1,898,473	124,740	2,023,213
Unearned premium reserve:			
General insurance	323,824	25,211	349,035
Automobile insurance	880,935	90,005	970,940
Long-term insurance	24,288	(9,067)	15,221
	1,229,047	106,149	1,335,196

NOTES TO SEPARATE FINANCIAL STATEMENTS

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Reserve for participating policyholders' dividends on long-term insurance	75,637	8,746	84,383
Excess participating policyholders' dividends reserve on long-term insurance	19,888	5,652	25,540
Reserve for compensation for losses on dividend-paying insurance contracts	15,074	5,576	20,650
	₩ 20,373,344	₩ 2,047,524	₩ 22,420,868

[1] The amounts of net increase or decrease in insurance liabilities include the effects from foreign currencies translation at overseas branches, which is ₩5,525 million and the decrease in liabilities about investment contract of ₩5,057 million.

(In millions of won)	2015		
	Beginning balance	Net increase (decrease) [1]	Ending balance
Long-term insurance premium reserve:			
Long-term insurance contract	₩ 15,202,111	₩ 1,818,052	₩ 17,020,163
Long-term investment contract	118,689	(3,627)	115,062
	15,320,800	1,814,425	17,135,225
Reserve for outstanding claims:			
General insurance	852,015	(2,465)	849,550
Automobile insurance	364,171	32,853	397,024
Long-term insurance	580,602	71,297	651,899
	1,796,788	101,685	1,898,473
Unearned premium reserve:			
General insurance	327,123	(3,299)	323,824
Automobile insurance	801,453	79,482	880,935
Long-term insurance	25,758	(1,470)	24,288
	1,154,334	74,713	1,229,047
Reserve for participating policyholders' dividends on long-term insurance	69,591	6,046	75,637
Excess participating policyholders' dividends reserve on long-term insurance	15,173	4,715	19,888
Reserve for compensation for losses on dividend-paying insurance contracts	13,140	1,934	15,074
	₩ 18,369,826	₩ 2,003,518	₩ 20,373,344

[1] The amounts net increase or decrease in insurance liabilities include the effects from foreign currencies translation at overseas branches, which is ₩28,127 million and the decrease in liabilities about investment contract of ₩6,847 million.

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

(2) Liability adequacy test

(a) Assumptions for the insurance liability adequacy test as of December 31, 2016, is as follows:

	Basis
Long-term insurance	
Discount rate	Future return rate on invested asset based on past investment performance and future estimation
Rate of insurance operating expenses	Expected rate by product type based on the past 1 year experience adjusted for the future Company's insurance operating expense policy
Rate of persistency	Rate of persistent insurance contract for the last 5 years
Rate of claim payment	Ratio of claim payment to the anticipated risk premium of the insurer for the last 5 years
General insurance	
Rate of insurance operating expenses	Individual event ratio of actual insurance operating expenses to earned premium for the last 1 year
Rate of claim survey expenses paid	Individual event ratio of claim survey expenses paid to claim payment for the last 3 years
Rate of claim payment	Individual event ratio of actual claim payment to earned premium for the last 5 years
Automobile insurance	
Rate of insurance operating expenses	Individual collateral ratio of actual insurance operating expenses to earned premium for the last 1 year
Rate of claim survey expenses paid	Individual collateral ratio of claim survey expenses paid to claim payment for the last 3 years
Rate of claim payment	Individual collateral ratio of actual claim payment to earned premium for the last 5 years

(b) The results of liability adequacy test as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016		
	Recognized liabilities [1]	Estimated adequate liabilities	Shortfall (surplus)
General insurance	403,619	334,540	(69,079)
Automobile insurance	1,011,982	966,296	(45,686)
Long-term insurance	17,149,988	13,932,363	(3,217,625)
	₩ 18,565,589	₩ 15,233,199	₩ (3,332,390)

(In millions of won)	2015		
	Recognized liabilities [1]	Estimated adequate liabilities	Shortfall (surplus)
General insurance	388,796	333,409	(55,387)
Automobile insurance	919,068	884,676	(34,392)
Long-term insurance	₩ 15,365,938	₩ 12,862,146	₩ (2,503,792)
	₩ 16,673,802	₩ 14,080,231	₩ (2,593,571)

[1] For long-term insurance, it is an amount after deduction of the deferred acquisition costs from insurance premium reserve, and for general insurance and automobile insurance, it is an amount including the unearned premium based on original insurance.

24. Financial liabilities at fair value through profit or loss

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

(In millions of won)	2016	2015
Derivatives liabilities for trading purpose		
Derivatives liabilities related to currency	₩ 8,320	₩ 4,280
Others	3	1,430
	₩ 8,323	₩ 5,710

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

25. Other financial liabilities

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

(In millions of won)	2016	2015
Insurance accounts payable	₩ 360,909	₩ 365,335
Accrued expenses	99,361	92,363
Accounts payable	10,989	11,411
Deposit received	11,934	11,633
Security deposit	28,180	27,875
	₩ 511,373	₩ 508,617

Insurance accounts payable as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Claims payable	₩ 4,534	₩ 4,872
Due to agents	78,288	80,252
Premiums refund payable	2,004	6,051
Payables related to agency business	16,992	27,328
Reinsurance accounts payable	124,445	104,014
Overseas reinsurance premiums payable	91,798	106,239
Deposits on reinsurance treaty ceded	42,848	36,579
	₩ 360,909	₩ 365,335

26. Provisions

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

(In millions of won)	2016	2015
Asset retirement obligation	₩ 906	₩ 832
Dormant insurance claims liabilities	28,312	30,629
Provisions for undrawn commitment liabilities	18	-
Others	33,407	15,817
	₩ 62,643	₩ 47,278

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

(In millions of won)	2016					
	Beginning balance	Occurrence	Used	Increase [1]	Reversal [1]	Ending balance
Asset retirement obligation	₩ 832	₩ 572	₩ -	₩ -	₩ (498)	₩ 906
Dormant insurance claims liabilities	30,629	-	(31,852)	29,535	-	28,312
Others	15,817	-	(9,385)	26,975	-	33,407
Undrawn commitments	-	-	-	18	-	18
	₩ 47,278	₩ 572	₩ (41,237)	₩ 56,528	₩ (498)	₩ 62,643

[1] Increase and reversal of provisions are included in other income and other expenses.

(In millions of won)	2015				
	Beginning balance	Occurrence	Transfer [1]	Reversal [1]	Ending balance
Asset retirement obligation	₩ 846	₩ 339	₩ -	₩ (353)	₩ 832
Dormant insurance claims liabilities	27,613	-	3,016	-	30,629
Others	256	-	15,561	-	15,817
	₩ 28,715	₩ 339	₩ 18,577	₩ (353)	₩ 47,278

[1] Increase and reversal of provisions are included in other income and other expenses.

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

27. Liability for defined benefit plans and Share-based payments

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

(In millions of won)	2016	2015
Present value of defined benefit obligation	₩ 279,781	₩ 268,968
Fair value of plan assets	(188,529)	(165,783)
Recognized liabilities for defined benefit plans	₩ 91,252	₩ 103,185

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

(In millions of won)	2016	2015
Beginning balance	₩ 268,968	₩ 241,461
Current service cost	27,818	26,961
Past service cost	-	9,341
Interest cost	6,922	7,190
Remeasurements gain	(15,570)	(4,402)
Benefits paid	(8,556)	(11,050)
Transfer in	841	328
Transfer out	(658)	(230)
Others	16	(631)
Ending balance	₩ 279,781	₩ 268,968

(3) Changes in the fair value of plan assets for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Beginning balance	₩ 165,783	₩ 157,979
Interest income	4,246	4,836
Remeasurements loss	(1,751)	(1,653)
Contributions paid	30,200	18,617
Benefits paid	(7,045)	(13,463)
Transfer in	841	328
Transfer out	(658)	(230)
Others	(3,087)	(631)
Ending balance	₩ 188,529	₩ 165,783

(4) Profit or loss on liability for defined benefit plans for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Current service cost	₩ 27,818	₩ 26,961
Past service cost	-	9,341
Interest cost	6,922	7,190
Interest income	(4,246)	(4,836)
	₩ 30,494	₩ 38,656

[1] Profit or loss on liability for defined benefit plans are included in insurance operating expenses, administrative expenses for assets and claim survey expenses paid.

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

(5) Remeasurements recognized as other comprehensive income or loss for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Remeasurement gain (loss)		
Return on plan assets	₩ (1,751)	₩ (1,653)
Change in demographic assumptions	-	(35)
Change in financial assumptions	8,189	3,031
Experience adjustment	7,381	1,406
	13,819	2,749
Effect of tax	(3,344)	(665)
Remeasurement gain (loss) after the tax effect	₩ 10,475	₩ 2,084

(6) Details of plan assets as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016			2015		
	Assets quoted in an active market	Assets not quoted in an active market	Total	Assets quoted in an active market	Assets not quoted in an active market	Total
Time deposit	₩ -	₩ 188,529	₩ 188,529	₩ -	₩ 160,283	₩ 160,283
Debt securities	-	-	-	-	5,500	5,500
	₩ -	₩ 188,529	₩ 188,529	₩ -	₩ 165,783	₩ 165,783

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

(In millions of won)	2016	2015	Descriptions
Discount rate	2.60%	2.60%	AAA Corporate bond yields
Rate of salary increase	5.20%	5.20%	Average for last 3 years

(8) Sensitivity analysis

(a) Discount rate

(In millions of won)	2016	Present value when the rate rises 0.5%P basis points	Present value when the rate falls 0.5%P basis points
Present value of liability for defined benefit plans	₩ 279,781	₩ 260,390	₩ 301,128

(b) Rate of salary increase

(In millions of won)	2016	Present value when the rate rises 0.5%P basis points	Present value when the rate falls 0.5%P basis points
Present value of liability for defined benefit plans	₩ 279,781	₩ 300,495	₩ 260,746

(9) Maturity analysis of undiscounted pension benefits payable as of December 31, 2016, is as follows:

(In millions of Korean won)	Lee than 1 year	1 ~ 2 years	2 ~ 5 years	5 ~ 10 years	More than 10 years	Total
Benefits payable	6,004	6,238	27,282	87,950	1,024,794	1,152,268

The weighted average maturities of the defined benefit obligation is 14.91 years (2015: 15.32 years).

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

(10) Share-based payments

KB Financial Group Inc. signs on stock grants contracts with directors of the Company. At the inception, the maximum granting amount is decided and the actual granting amount is upon each director's performance, which can be shown by the achievement of pre-determined goal.

The Company provided option to the directors and employees for time of deferred payment and ratio and period of payments, during the current financial year. In accordance with the option, after the deferred payment is decided, certain portion of the given payments will be deferred no more than 5 years after the termination of service.

(a) The details of stock grants related to long-term performance as of December 31, 2016, are as follows:

(In shares)	Grant Date	Grant Date	Vesting Condition
1-2	June 24, 2015	3,122	Services fulfillment, achievement of targets on the basis of market and non-market performance [2,4]
1-3	June 24, 2015	54,372	Services fulfillment, achievement of targets on the basis of market and non-market performance [2,5]
2-1	January 1, 2016	6,554	Services fulfillment, achievement of targets on the basis of market and non-market performance [2,5]
3-1	January 5, 2016	1,830	Services fulfillment, achievement of targets on the basis of market and non-market performance [2,4]
4-1	January 14, 2016	9,101	Services fulfillment, achievement of targets on the basis of market and non-market performance [2,5]
5-1	February 1, 2016	4,955	Services fulfillment, achievement of targets on the basis of market and non-market performance [2,5]
6-1	March 18, 2016	25,348	Services fulfillment, achievement of targets on the basis of market and non-market performance [2,3]
Deferred grant in 2015	June 24, 2015	4,316	Services fulfillment, achievement of targets on the basis of market and non-market performance [2,5]
		109,598	

[1] Granted shares represent the total number of shares initially granted to directors and employees that have residual shares at the end of reporting period (Deferred grants are residual shares as of December 31, 2016).

[2] Certain portion of the granted shares is compensated over a maximum period of three years.

[3] 30% of the number of certain granted shares to be compensated is determined upon the accomplishment of relative TSR, while 70% is determined upon the accomplishment of the Company Performance Results.

[4] 50% of the number of certain granted shares to be compensated is determined upon the accomplishment of Performance Results, while 50% is determined upon the accomplishment of relative TSR.

[5] 30%, 40% and 30% of the number of granted shares to be compensated are determined upon the accomplishment of relative TSR, Performance Results and the Company Performance Results, respectively.

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2) The details of stock grants related to short-term performance as of December 31, 2016, are as follows:

(In shares)	Grant Date	Granted shares[1]	Vesting Condition
Stock granted on 2015	June 24, 2015	₩ 25,383	Proportional to service period
Stock granted on 2016	January 1, 2016	47,977	Proportional to service period
		73,360	

[1] Granted shares are determined by performance and compensated over three or five years.

3) Stock grants are measured at fair value using the Monte Carlo Simulation Model and assumptions used in determining the fair value as of December 31, 2016, are as follows:

(In millions of won)	Expected exercise period (years)	Risk free rate (%)	Fair value (Market performance condition)	Fair value (Non-market performance condition)
Linked to long-term performance				
1-2	0 ~ 4	1.57	₩ 42,011	₩ 42,416
1-3	0 ~ 5	1.57	34,180 ~ 42,824	34,180 ~ 42,824
2-1	1 ~ 4	1.57	41,552	41,552
3-1	1 ~ 4	1.57	42,011	42,416
4-1	1 ~ 4	1.57	41,467	42,012
5-1	1 ~ 4	1.57	41,590	42,012
6-1	1 ~ 5	1.57	41,527	41,838
Deferred grant in 2015	0 ~ 2	1.57	-	42,380 ~ 42,680
Linked to long-term performance				
granted in 2015	0 ~ 5	1.57	-	41,673 ~ 42,824
granted in 2016	1 ~ 5	1.57	₩ -	₩41,673 ~ ₩ 42,680

Expected volatility is based on the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the grant. And the current stock price as of December 31, 2016, was used for the underlying asset price. Additionally, the average three-year historical dividend rate was used as the expected dividend rate.

4) The compensation cost that the Company recognized as expenses for share-based payments for the years ended December 31, 2016 and 2015, are ₩ 5,831 million and ₩ 2,000 million, respectively. The compensation costs amounting to ₩ 6,056 million and ₩ 2,000 million were recognized as long-term accrued expenses for KB Financial Group, Inc. as of December 31, 2016 and 2015, respectively.

28. Other liabilities

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

(In millions of won)	2016	2015
Unearned revenues	₩ 545	₩ 837
Advances from clients	-	13,000
Advance premiums received	30,172	18,701
Withholdings	4,924	5,406
Others	1,768	1,492
	₩ 37,409	₩ 39,436

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December 31, 2016 and 2015

29. Assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies as of December 31, 2016 and 2015, are as follows:

(In millions of won, In thousands of Australian Dollar, US Dollar, Euro, Japanese Yen, Chinese Yuan, British Pound, Singapore Dollar, Vietnamese Dong, Hong Kong Dollar and Indonesia Rupiah.)

		2016		2015	
	Currency	Foreign currency	Equivalent in Korean won	Foreign currency	Equivalent in Korean won
Financial assets					
Cash and cash equivalents	AUD	22	₩ 19	42	₩ 36
	JPY	1,488	15	17	-
	SGD	58	48	214	177
	USD	38,383	46,386	110,328	129,304
	EUR	204	259	133	170
	GBP	126	187	12	21
Financial assets at fair value through profit or loss	USD	257,210	310,838	141,504	165,843
Available-for-sale financial assets	CNY	12,211	2,116	23,799	4,248
	EUR	30,455	38,604	3,487	4,466
	HKD	10,367	1,615	7,026	1,062
	USD	3,148,363	3,804,796	2,779,916	3,258,062
Held-to-maturity financial assets	USD	117,511	142,013	40,000	46,880
Loans	JPY	-	-	2,000,000	19,440
	USD	17,635	142,013	18,463	21,638
Other receivables	AUD	170	148	105	90
	CNY	10,830	1,876	3,799	678
	EUR	575	729	425	544
	GBP	101	149	229	398
	JPY	36,631	380	32,680	318
	USD	73,238	88,508	246,179	288,523
	VND	1,866,567	99	1,764,328	92
	IDR	1,875,487	168	-	-
	SGD	134	112	-	-
	AUD	192	167	147	126
	CNY	23,041	3,992	27,598	4,926
	EUR	31,234	39,592	4,045	5,180
	GBP	227	336	241	419
	JPY	38,119	395	2,032,697	19,758
	USD	3,652,340	4,413,853	3,336,390	3,910,250
	VND	1,866,567	99	1,764,328	92
	IDR	1,875,487	168	-	-
	SGD	192	160	214	177
	HKD	10,367	1,615	7,026	1,062
Financial liabilities					
Other financial liabilities	CNY	1,250	217	3,679	657
	EUR	361	458	802	1,027
	GBP	125	186	173	300
	THB	6,043	203	-	-
	IDR	262,687	24	4,924,565	419
	USD	20,313	24,548	26,585	31,158
	JPY	-	₩ -	6,536	₩ 64

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

30. Equity

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

(In millions of won)		2016	2015
Capital stock	Common stock	₩ 33,250	₩ 30,000
Capital surplus	Share premium	217,046	49,712
	Gain on disposal of treasury stocks	131,408	131,408
		348,454	181,120
Accumulated other comprehensive income	Net change in fair value of available-for-sale financial assets	174,926	265,880
	Net change in fair value of cash flow hedges	881	663
	Net change in fair value of subsidiaries (Beneficiary certificate)	731	1,257
	Foreign currency translation differences for foreign operations	(6,349)	(10,116)
	Remeasurements of defined benefit plans	(47,844)	(58,319)
	Other comprehensive income arising from separate account	4,304	11,071
	Revaluation of property and equipment	77,411	78,053
		204,060	288,489
Accumulated other comprehensive income for assets held for sale	Revaluation of property and equipment	314	
Retained earnings	Legal reserve[1]	15,000	15,000
	Other reserve	858,391	758,391
	Regulatory reserve for credit loss[2]	55,922	70,519
	Emergency risk reserve[2]	619,688	585,162
	Retained earnings before appropriation	300,513	148,334
		1,849,514	1,577,406
		₩ 2,435,592	₩ 2,077,015

[1] In accordance with Korean Commercial Law, the Company is required to reserve over 10% of its dividends as legal reserve on every financial reporting period until the reserve reaches half of its capital. It is restricted to distribute as a cash dividend and allowed to use only for retained earning deficits from prior years and capital transfer by the authorization of shareholders.

[2] Retained earnings restricted to distribute as dividends by appropriation of retained earnings at the end of reporting period

Capital stock as of December 31, 2016 and 2015, are as follows:

	2016	2015
Number of shares authorized	200,000,000	200,000,000
Par value per share (in Korean won)	₩ 500	₩ 500
Number of shares issued1	66,500,000	60,000,000

[1] In December 2016, the Company increased share capital by allocation to third parties in order to maintain stable capital adequacy.

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

(In millions of won)	2016							
	Valuation gain (loss) on available-for-sale financial assets	Valuation gain (loss) on cash flow hedges	Valuation gain (loss) on equity of subsidiaries	Foreign currency translation differences for foreign operations	Remeasurements of defined benefit plans	Other comprehensive income arising from separate account	Revaluation of property and equipment	Total
Beginning balance	₩ 265,880	₩ 663	₩ 1,257	₩ (10,116)	₩ (58,319)	₩ 11,071	₩ 78,053	₩ 288,489
Net change due valuation	(34,318)	-	(694)	-	13,819	(5,370)	-	(26,563)
Change due to impairment and disposal	(86,428)	(54,189)	-	-	-	(3,558)	-	(144,175)
Effect of hedge accounting	-	54,476	-	-	-	-	-	54,476
Effect of foreign currency movements	754	-	-	3,767	-	-	-	4,521
Transfer to retained earnings	-	-	-	-	-	-	(420)	(420)
Transfer to assets held for sale	-	-	-	-	-	-	(314)	(314)
Effect of deferred tax	29,038	(69)	168	-	(3,344)	2,161	92	28,046
Ending balance	₩ 174,926	₩ 881	₩ 731	₩ (6,349)	₩ (47,844)	₩ 4,304	₩ 77,411	₩ 204,060

(In millions of won)	2015							
	Valuation gain (loss) on available-for-sale financial assets	Valuation gain (loss) on cash flow hedges	Valuation gain (loss) on equity of subsidiaries	Foreign currency translation differences for foreign operations	Remeasurements of defined benefit plans	Other comprehensive income arising from separate account	Revaluation of property and equipment	Total
Beginning balance	₩ 220,586	₩ 1,324	₩ 2,161	₩ (5,712)	₩ (60,403)	₩ 14,516	₩ 78,053	₩ 250,525
Net change due to valuation	114,010	-	(1,798)	-	2,749	(1,583)	-	113,378
Change due to impairment and disposal	(54,482)	(465)	605	-	-	(2,962)	-	(57,304)
Effect of hedge accounting	-	(407)	-	-	-	-	-	(407)
Effect of foreign currency movements	227	-	-	(4,404)	-	-	-	(4,177)
Effect of deferred tax	(14,461)	211	289	-	(665)	1,100	-	(13,526)
Ending balance	₩ 265,880	₩ 663	₩ 1,257	₩ (10,116)	₩ (58,319)	₩ 11,071	₩ 78,053	₩ 288,489

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Details of appropriation of retained earnings for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
	Expected appropriation date: March 18, 2016	Appropriation date: March 20, 2015
Unappropriated retained earnings:		
Balance at beginning of period	₩ 4,405	₩ (25,402)
Changes in revaluation of Property and equipment	328	-
Profit for the period	295,780	173,736
	300,513	148,334
Appropriation of retained earnings:		
Dividends		
Cash dividend		
Current year: 600 per share (120%)		
Prior year: 400 per share (80%)	39,900	24,000
Legal reserves	625	-
Voluntary reserve	210,000	100,000
Regulatory reserve for credit loss	(378)	(14,597)
Emergency Risk Reserve	43,516	34,526
	294,663	143,929
Unappropriated retained earnings carried over to the subsequent year	₩ 5,850	₩ 4,405

Regulatory reserve for credit loss as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Regulatory reserve for credit loss	₩ 55,922	₩ 70,519
Estimated reversal of regulatory reserve for credit loss	(378)	(14,597)
	₩ 55,544	₩ 55,922

Profit for the period adjusted by bad debt reserve for the years ended December 31, 2016 and 2015 were as follows:

(In millions of won)	2016	2015
Profit for the period	₩ 295,780	₩ 173,736
Reversal of provision for reversal of regulatory reserve for credit loss	378	14,597
Profit for the period adjusted by regulatory reserve for credit loss[1]	296,158	188,333
Earnings per share adjusted by regulatory reserve for credit loss	₩ 4,933	₩ 3,575

[1] Adjusted profit after provision or reversal of reserve for credit losses is not in accordance with Korean IFRS and calculated on the assumption that provision or reversal of reserve for credit losses before income tax is adjusted to the net income.

Emergency risk reserve in the Regulation on Supervision of Insurance Business as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Emergency risk reserve	₩ 619,688	₩ 585,162
Estimated emergency risk reserve to be provided	43,516	34,526
	₩ 663,204	₩ 619,688

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

Profit for the period adjusted by emergency risk reserve for the years ended December 31, 2016 and 2015, were as follows:

(In millions of won)	2016	2015
Profit for the period	₩ 295,780	₩ 173,736
Provision for emergency risk reserve for loan loss	(43,516)	(34,526)
Profit for the period adjusted by emergency risk reserve[1]	252,264	139,210
Earnings per share adjusted by emergency risk reserve (in won)	₩ 4,202	₩ 2,642

[1] Adjusted profit after provision or reversal of emergency risk reserve is not in accordance with Korean IFRS and calculated on the assumption that provision or reversal of emergency risk reserve before income tax is adjusted to the net income.

31. Premium Income

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

(In millions of won)	2016			
	General insurance	Automobile insurance	Long-term and individual insurance	Total
Direct premium written by the Company	₩ 882,687	₩ 2,030,981	₩ 6,510,846	₩ 9,424,514
Assumed reinsurance premium	76,172	-		76,172
Refund of surrender value	(16,572)	(92,441)	(700)	(109,713)
	₩ 942,287	₩ 1,938,540	₩ 6,510,146	₩ 9,390,973

(In millions of won)	2015			
	General insurance	Automobile insurance	Long-term and individual insur-ance	Total
Direct premium written by the Company	₩ 880,023	₩ 1,831,804	₩ 6,407,619	₩ 9,119,446
Assumed reinsurance premium	77,439	-	-	77,439
Refund of surrender value	(19,960)	(86,318)	(540)	(106,818)
	₩ 937,502	₩ 1,745,486	₩ 6,407,079	₩ 9,090,067

32. Insurance claims paid, dividend expenses and refunds of surrender value

Insurance claims paid, dividend expenses and refunds of surrender value for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016			
	General insurance	Automobile insurance	Long-term and individual insurance	Total
Insurance claims paid				
Direct premium written by the Company	₩ 582,974	₩ 1,429,205	₩ 1,443,299	₩ 3,455,478
Assumed reinsurance premium	30,691	-	-	30,691
Refund of premium	(10,047)	(76,504)	(3,591)	(90,142)
Refund of assumed reinsurance premium	(1,943)	-	-	(1,943)
	601,675	1,352,701	1,439,708	3,394,084
Dividend expenses	-	-	4,672	4,672
Refunds of surrender value	-	-	2,128,221	2,128,221
	₩ 601,675	₩ 1,352,701	₩ 3,572,601	₩ 5,526,977

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

(In millions of won)	2015			
	General insurance	Automobile insurance	Long-term and individual insurance	Total
Insurance claims paid				
Direct premium written by the Company	₩ 681,689	₩ 1,378,293	₩ 1,207,379	₩ 3,267,361
Assumed reinsurance premium	26,815	-	-	26,815
Refund of premium	(44,314)	(67,736)	(2,365)	(114,415)
Refund of assumed reinsurance premium	(577)	-	-	(577)
	663,613	1,310,557	1,205,014	3,179,184
Dividend expenses	-	-	4,435	4,435
Refunds of surrender value	-	-	2,287,057	2,287,057
	₩ 663,613	₩ 1,310,557	₩ 3,496,506	₩ 5,470,676

33. Reinsurance income and expenses

Income and expenses relating to reinsurance transactions for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016			
	General insurance	Automobile insurance	Long-term and individual insurance	Total
Reinsurance Income				
Reinsurance claims	₩ 319,607	₩ 39,330	₩ 210,183	₩ 569,120
Refund of reinsurance claims	(6,163)	-	(641)	(6,804)
	313,444	39,330	209,542	562,316
Reinsurance expenses				
Reinsurance premium	572,420	41,789	243,407	857,616
Reversal of refund of surrender value	(4,247)	-	-	(4,247)
	568,173	41,789	243,407	853,369
Reinsurance commissions[1]	91,184	(3,102)	457	88,539
Reinsurance profit commissions[1]	2,349	-	2,297	4,646
Assumed reinsurance commissions[2]	6,474	-	-	6,474
Assumed reinsurance profit commissions[2]	₩ (21)	₩ -	₩ -	₩ (21)

[1] Included in recovered expenses

[2] Included in insurance operating expenses

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

(In millions of won)	2015			
	General insurance	Automobile insurance	Long-term and individual insurance	Total
Reinsurance Income				
Reinsurance claims	₩ 439,282	₩ 51,320	₩ 168,661	₩ 659,263
Refund of reinsurance claims	(34,657)	-	(381)	(35,038)
	404,625	51,320	168,280	624,225
Reinsurance expenses				
Reinsurance premium	625,774	40,462	196,553	862,789
Reversal of refund of surrender value	(4,104)	-	-	(4,104)
	621,670	40,462	196,553	858,685
Reinsurance commissions [1]	93,619	(1,291)	1,177	93,505
Reinsurance profit commissions [1]	(724)	-	4,118	3,394
Assumed reinsurance commissions [2]	4,424	-	-	4,424
Assumed reinsurance profit commissions [2]	₩ (85)	₩ -	₩ -	₩ (85)

[1] Included in recovered expenses

[2] Included in insurance operating expenses

34. Interest income and expense

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

(In millions of won)	2016	2015
Interest income		
Cash and cash equivalents	₩ 2,667	₩ 1,937
Trading assets	1,498	755
Financial assets designated at fair value through profit or loss	18,808	15,754
Available-for-sale financial assets	231,253	214,611
Held-to-maturity financial assets	82,311	65,657
Loans	283,754	286,889
Other receivables	6,174	15,268
	₩ 626,465	₩ 600,871
Interest expense		
Debts	₩ 27	₩ 342
Other	261	176
	₩ 288	₩ 518

Interest income recognized on impaired financial assets for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Available-for-sale financial assets	₩ 127	₩ 226
Loans	1,165	2,036
	₩ 1,292	₩ 2,262

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

35. Gain and loss on valuation and disposal of securities

Gain on valuation and disposal of securities for the years ended December 31, 2015 and 2014, are as follows:

(In millions of won)	2016	2015
Trading assets		
Gain on disposal	₩ 3,466	₩ 39,004
Gain on valuation	307	578
Financial assets designated at fair value through profit or loss		
Gain on disposal	-	937
Gain on valuation	6,337	3,131
Available-for-sale financial assets		
Gain on disposal	68,116	82,786
Held-to-maturity financial assets		
Gain on redemption	-	942
	₩ 78,226	₩ 127,378

Loss on valuation and disposal of securities for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Trading assets		
Loss on disposal	₩ 1,674	₩ 34,458
Loss on valuation	1,393	301
Financial assets designated at fair value through profit or loss		
Loss on disposal	5,224	2,519
Loss on valuation	8,784	11,014
Available-for-sale financial assets		
Loss on disposal	11,421	21,523
Loss on impairment	48,823	18,318
	₩ 77,319	₩ 88,133

36. Gain and loss on valuation and disposal of loans and other receivables

Gain and loss on valuation and disposal of loans and other receivables for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Reversal of impairment loss	₩ 1	₩ 164
Gain on disposal	36	-
	₩ 37	₩ 164
Loss on impairment	₩ 36,660	₩ 11,021
Loss on disposal	-	22
	₩ 36,660	₩ 11,043

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

37. Gain and loss on valuation and disposal of derivatives

Gain and loss on valuation and disposal of derivatives for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Gain on disposal	₩ 46,452	₩ 16,408
Gain on valuation	7,858	6,912
	₩ 54,310	₩ 23,320
Loss on disposal		
Loss on valuation	₩ 20,543	₩ 66,563
	142,187	103,356

38. Gain and loss on valuation and disposal of investments in subsidiaries

Gain and loss on valuation and disposal of investments in subsidiaries for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Gain on disposal	₩ 231	₩ 786
Loss on disposal	₩ 456	₩ 535
Loss on valuation	-	12,026
	₩ 456	₩ 12,561

39. Expenses recovered

Expenses recovered for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Reinsurance commissions	₩ 88,539	₩ 93,505
Reinsurance profit commissions	4,646	3,394
Assumed reinsurance interest	58	51
Agent commission	2,719	1,708
	₩ 95,962	₩ 98,658

40. Insurance operating expenses, administrative expenses for assets and claim survey expenses paid

Insurance operating expenses, administrative expenses for assets and claim survey expenses paid for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016		
	Insurance operating expenses	Administrative expenses for assets	Claim survey expenses paid
Short-term employee benefits	₩ 236,756	₩ 6,387	₩ 52,658
Post-employment benefits	27,007	687	5,887
Other long-term employee benefits	83	2	22
Welfare expenses	8,413	48	970
General and administrative expenses	441,569	44,907	124,522
Acquisition cost	67,637	-	-
Agent commission	243,733	-	-
Claim survey expenses paid	-	-	51,767
Claim survey expenses recovered	-	-	(19,730)
Assumed reinsurance commission paid	6,474	-	-
Others	2,473	-	-
	₩ 1,034,145	₩ 52,031	₩ 216,096

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

(In millions of won)	2015		
	Insurance operating expenses	Administrative expenses for assets	Claim survey expenses paid
Short-term employee benefits	₩ 220,348	₩ 5,281	₩ 50,209
Post-employment benefits	30,589	820	7,246
Other long-term employee benefits	1,114	3	372
Welfare expenses	7,187	112	1,506
General and administrative expenses	395,544	71,263	122,253
Acquisition cost and collection expense	63,767	-	-
Agent commission	247,683	-	-
Claim survey expenses paid	-	-	73,763
Claim survey expenses recovered	-	-	(26,868)
Assumed reinsurance commission paid	4,424	-	-
Other	1,416	-	-
	₩ 972,072	₩ 77,479	₩ 228,481

41. Other income and expenses

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

(In millions of won)	2016	2015
Reversal of provision	₩ 498	₩ 353
Commission income	2,575	1,603
Rent income	25,737	25,793
Separate account revenues	22,951	17,737
Miscellaneous operating income	16,618	17,250
	₩ 68,379	₩ 62,736

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

(In millions of won)	2016	2015
Increase in provision	₩ 56,528	₩ 18,577
Separate account expenses	581	369
Amortization of intangible assets	8,945	9,047
Miscellaneous operating expenses	1,171	1,567
	₩ 67,225	₩ 29,560

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

(In millions of won)	2016	2015
Consumer loan	₩ 1	₩ 1
Corporate loan	1,414	1,452
Debt securities	10	43
Others	1,150	107
	₩ 2,575	₩ 1,603

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December 31, 2016 and 2015

42. Non-operating income and expenses

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

(In millions of won)	2016	2015
Gain on disposal of property and equipment	₩ 258	₩ 218
Gain on disposal of non-current assets held for sales	3,946	-
Gain on disposal of intangible assets	1,052	143
Reversal of Impairment loss on intangible assets	297	-
Miscellaneous non-operating income	4,698	2,551
	₩ 10,251	₩ 2,912

Non-operating expenses for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Donation	₩ 2,424	₩ 1,275
Loss on disposal of property and equipment	1,758	244
Loss on disposal of intangible assets	71	-
Impairment of intangible assets	426	1,317
Miscellaneous non-operating expenses	5,141	1,700
Penalties	68	4
	₩ 9,888	₩ 4,540

43. Income tax expense

Income tax expense for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Current tax expense[1]	₩ 71,063	₩ 71,983
Tax effect of changes in cumulative temporary differences[2]	(1,083)	36,090
Income tax directly applied to equity	28,046	(55,479)
Income tax expense	₩ 98,026	₩ 52,594

[1] Current tax expenses include ₩18 million (2015: ₩2,438 million) from prior year's tax adjustments and a follow-up payment.

[2] Changes in deferred income tax from temporary differences in 2016 include the decrease in deferred income tax liability of ₩829 million (2015: ₩ 1,415 million) caused by the finalization of prior year's tax adjustment.

An analysis of the profit before income tax and income tax expense for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Profit before income tax	₩ 393,805	₩ 226,330
Income tax at statutory tax rates	₩ 94,839	₩ 54,310
Adjustments :		
Tax-exempt income	(499)	(195)
Non-deductible expense	504	928
Adjusted tax on tax filing	(19)	(60)
Additional payment (refund) of income tax	-	(2,378)
Tax credits	-	(18)
Other (Effects of tax rate changes, others)	3,201	7
Income tax expense	₩ 98,026	₩ 52,594
Effective tax rate	24.89%	23.24%

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Movement in deferred tax assets (liabilities) for the years ended December 31, 2015 and 2014, are as follows:

(In millions of won)	2016			
	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending Balance
Liability for defined benefit plans	₩ 59,632	₩ 6,045	₩ (3,344)	₩ 62,333
Retirement insurance premium	(40,119)	(5,505)	-	(45,624)
Effective interest amortization	1,837	1,663	-	3,500
Emergency risk reserve	(149,964)	(10,531)	-	(160,495)
Loss on impairment of investment securities	21,475	(4,294)	-	17,181
Loss on impairment of intangible assets	2,824	(1,131)	-	1,693
Provisions	7,675	(542)	-	7,133
Depreciation	2,588	(888)	-	1,700
Advanced depreciation provision	(1,498)	-	-	(1,498)
Deferred loan origination fees and cost	(4,503)	525	-	(3,978)
Accrued income	(17,475)	(4,211)	-	(21,686)
Compensation receivables	(7,709)	(118)	-	(7,827)
Other	(7,193)	(7,985)	-	(15,178)
Gain (loss) on revaluation of land	(24,216)	9	92	(24,115)
Gain (loss) on valuation of available-for-sale securities	(84,885)	-	29,038	(55,847)
Gain (loss) on valuation of cash flow hedge	(212)	-	(69)	(281)
Gain (loss) on valuation of Investments in associates and subsidiaries	(401)	-	168	(233)
Other comprehensive income arising from separate account	(3,535)	-	2,161	(1,374)
	₩ (245,679)	₩ (26,963)	₩ 28,046	₩ (244,596)

(In millions of won)	2015			
	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending Balance
Liability for defined benefit plans	₩ 52,437	₩ 7,860	₩ (665)	₩ 59,632
Retirement insurance premium	(38,752)	(1,367)	-	(40,119)
Effective interest amortization	2,804	(967)	-	1,837
Emergency risk reserve	(141,609)	(8,355)	-	(149,964)
Loss on impairment of investment securities	14,913	6,562	-	21,475
Loss on impairment of intangible assets	2,632	192	-	2,824
Provisions	6,949	726	-	7,675
Depreciation	5,527	(2,939)	-	2,588
Advanced depreciation provision	(1,506)	8	-	(1,498)
Deferred loan origination fees and cost	(3,900)	(603)	-	(4,503)
Accrued income	(16,033)	(1,442)	-	(17,475)
Compensation receivables	(7,899)	190	-	(7,709)
Other	15,236	(22,429)	-	(7,193)
Gain (loss) on revaluation of land	(24,216)	-	-	(24,216)
Gain (loss) on valuation of available-for-sale securities	(70,424)	-	(14,461)	(84,885)
Gain (loss) on valuation of cash flow hedge	(423)	-	211	(212)
Gain (loss) on valuation of Investments in associates and subsidiaries	(690)	-	289	(401)
Other comprehensive income arising from separate account	(4,635)	-	1,100	(3,535)
	₩ (209,589)	₩ (22,564)	₩ (13,526)	₩ (245,679)

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December 31, 2016 and 2015

Deductible temporary difference which is not recognized as deferred tax assets as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016		2015	
	Temporary difference	Deferred tax assets	Temporary difference	Deferred tax assets
Investment in subsidiaries[1]	₩ 4,546	₩ 1,100	₩ 4,374	₩ 1,059

[1] The Company did not recognize deferred tax assets of investment in subsidiaries (excluding consolidated beneficiary certificates) as the related temporary differences are not likely to be utilized in the foreseeable future.

Amounts that were directly charged or credited to equity (or accumulated other comprehensive income) for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Gain (loss) on valuation of available-for-sale financial assets	₩ 29,038	₩ (14,461)
Gain (loss) on cash flow hedge	(69)	211
Gain (loss) on valuation of investments in associates and subsidiaries	168	289
Revaluation of property and equipment	92	-
Remeasurements of defined benefit plans	(3,344)	(665)
The accumulated other comprehensive income in separate account	2,161	1,100
Gain on disposal of treasury stocks	-	(41,953)
	₩ 28,046	₩ (55,479)

44. Earnings per share

Basic earnings per share for the years ended December 31, 2016 and 2015, is as follows:

	2016	2015
Profit for the period (in won)	₩ 295,779,688,641	₩ 173,735,912,282
Weighted average number of common shares outstanding1	60,035,519	52,686,472
Earnings per share (in won)	4,927	3,298

Weighted-average number of common shares outstanding for the years ended December 31, 2016 and 2015, is as follows:

	2016	2015
Weighted average number of issued common shares1	60,035,519	60,000,000
Weighted average number of treasury stocks held	-	7,313,528
Weighted average number of common shares outstanding	60,035,519	52,686,472

[1] Weighted average number of issued common shares is calculated with consideration of changes due to issuance of share capital during the current period.

Diluted earnings per share for the years ended December 31, 2016 and 2015, are the same as basic earnings per share as the Company does not have any diluted securities.

NOTES TO SEPARATE FINANCIAL STATEMENTS

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45. Commitments and contingencies

(1) The contract amounts of insurance policies in effect as of December 31, 2016, amount to ₩ 3,042,575,544 (2015:₩2,495,777,396 million).

(2) The Company assumes and cedes a portion of total insurance premiums with Korean Re Co., Ltd and foreign reinsurers including Munich Re. According to arrangements, the Company pays and receives reinsurance premium and commission fee by settlement with counter companies.

(3) Payment guarantees offered by financial institutions as of December 31, 2016, are as follows:

(In US dollars)	Limitation	Amount	Guaranteed period
Australia and New Zealand Bank	USD 25,000,000	SD 21,830,546	Dec. 31, 2016 ~ Dec. 30, 2017

(4) The Company has an overdraft agreement, which is renewable annually with Shinhan Bank. The maximum amounts for overdraft per-day and intra-day are ₩2,000 million and ₩60,000 million, respectively.

(5) Other commitments provided by the Company as of December, 12 2016 and 2015 are as follow:

(In millions of won)	Undrawn commitments	
	2016	2015
Loan commitments	₩ 557,113	₩ 740,102
Purchase of security investment	1,214,623	683,085
	₩ 1,771,736	₩ 1,423,187

(6) Pending litigations as a defendant as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016		
	Number of litigations	Amount of damage claim	Descriptions
Automobile insurance	1,076	₩ 43,318	Compensation claim & others
General/long-term insurance and others	430	270,965	Compensation claim & others
	1,506	₩ 314,383	

(In millions of won)	2015		
	Number of litigations	Amount of damage claim	Descriptions
Automobile insurance	671	₩ 45,076	Compensation claim & others
General/long-term insurance and others	406	123,751	Compensation claim & others
	1,077	₩ 168,827	

For the above pending litigations as a defendant, the Company has reserved estimated losses as a reserve for outstanding claims. As of December 31, 2016, such litigations are in process and the ultimate outcome of such litigations cannot be predicted.

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

46. Related Party Transactions

(1) The related parties as of December 31, 2016 and 2015, are as follows:

2016	2015	Relationship
Leading Insurance Services, Inc.	Leading Insurance Services, Inc.	Subsidiaries
LIG Insurance (China) Co ., Ltd	LIG Insurance (China) Co., Ltd	Subsidiaries
PT. KB Insurance Indonesia Inc.	PT. KB Insurance Indonesia Inc.	Subsidiaries
-	CAPE Investment & Securities Co., Ltd(Formerly LIG Investment & Securities Co., Ltd)	Subsidiaries
KB Claims Survey & Adjusting Co., Ltd	KB Claims Survey & Adjusting Co., Ltd	Subsidiaries
KB Sonbo CNS Co., Ltd	KB Sonbo CNS Co., Ltd	Subsidiaries
KB Golden Life Care Co., Ltd	-	
-	KB Smart Stepup Private Fund 3rd	BC[1]
-	KB Smart Stepup Private Fund 4th	BC[1]
KB Hope Partner Private Fund 1st	KB Hope Partner Private Fund 1st	BC[1]
Daishin Forte Alpha Private Fund 30th	Daishin Forte Alpha Private Fund 30th	BC[1]
Daishin Forte Alpha Private Fund 31st	Daishin Forte Alpha Private Fund 31st	BC[1]
Daishin Forte Alpha Private Fund 32nd	Daishin Forte Alpha Private Fund 32nd	BC[1]
Daishin Forte Alpha Private Fund 33rd	Daishin Forte Alpha Private Fund 33rd	BC[1]
Daishin Forte Alpha Private Fund 36th	Daishin Forte Alpha Private Fund 36th	BC[1]
Daishin Forte Alpha Private Fund 43rd	Daishin Forte Alpha Private Fund 43rd	BC[1]
Daishin Forte Alpha Private Fund 44th	Daishin Forte Alpha Private Fund 44th	BC[1]
Dongbu Private Fund 16th	Dongbu Private Fund 16th	BC[1]
Mirae asset Triumph Private Fund 38th	Mirae asset Triumph Private Fund 38th	BC[1]
Shinhan BNPP Corporate Private Fund 42th	Shinhan BNPP Corporate Private Fund 42th	BC[1]
Hana Landchip Private Fund 58th	Hana Landchip Private Fund 58th	BC[1]
-	Hanhwa Private Fund 86th	BC[1]
Hyundai Aviation Private Fund 3rd	Hyundai Aviation Private Fund 3rd	BC[1]
Hyundai Power Private Fund 3rd	Hyundai Power Private Fund 3rd	BC[1]
Hyundai Power Professional Investment Type Private Investment Trust No.4	-	BC[1]
KB U.S. LongShort Private Securities Fund 1 (Equity-FoFs)	-	BC[1]

[1] BC stands for consolidated beneficiary certificate.

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

(2) Major subsidiaries, associates and other related parties with outstanding receivables/payables balance as of December 31, 2016 and 2015, are as follows:

Relationship	2016	2015	Descriptions
Subsidiaries	Leading Insurance Services, Inc.	Leading Insurance Services, Inc.	Subsidiaries
	LIG Insurance (China) Co., Ltd	LIG Insurance (China) Co., Ltd	Subsidiaries
	PT. KB Insurance Indonesia Inc.	PT. KB Insurance Indonesia Inc.	Subsidiaries
	KB Claims Survey & Adjusting Co., Ltd	KB Claims Survey & Adjusting Co., Ltd	Subsidiaries
	KB Sonbo CNS Co., Ltd	KB Sonbo CNS Co., Ltd	Subsidiaries
	KB Golden Life Care Co., Ltd	-	Subsidiaries
	-	KB Smart Stepup Private Fund 4th	
	Dongbu Private Fund 16th	Dongbu Private Fund 16th	
	-	Hyundai Aviation Private Fund 2nd	BC[1]
	-	KB Hope Partner PF Bond 1	BC[1]
	-	Hanwha Private Equity Securities Investment Trust 86th	BC[1]
	KB Smart Stepup Private Fund 3rd	KB Smart Stepup Private Fund 3rd	BC[1]
	Daishin Forte Alpha Private Fund 30th	Daishin Forte Alpha Private Fund 30th	
	Daishin Forte Alpha Private Fund 31st	Daishin Forte Alpha Private Fund 31st	
	Daishin Forte Alpha Private Fund 32nd	Daishin Forte Alpha Private Fund 32nd	
	Daishin Forte Alpha Private Fund 33rd	Daishin Forte Alpha Private Fund 33rd	
	-	Daishin Forte Alpha Private Fund 36th	
	Mirae asset Triumph Private Fund 38th	Mirae asset Triumph Private Fund 38th	
	Shinhan BNPP Corporate Private Fund 42th	Shinhan BNPP Corporate Private Fund 42th	
	Hyundai Aviation Private Fund 3rd	Hyundai Aviation Private Fund 3rd	
	Daishin Forte Alpha Private Fund 43rd	Daishin Forte Alpha Private Fund 43rd	
	Daishin Forte Alpha Private Fund 44th	Daishin Forte Alpha Private Fund 44th	
	Hyundai Power Private Fund 3rd	Hyundai Power Private Fund 3rd	
	Hyundai Power Professional Investment Type Private Investment Trust No.4	-	
	Hana Landchip Private Fund 58th	-	
	KB U.S. LongShort Private Securities Fund 1 (Equity-FoFs)	-	
Associates		Kocref Cr-reit VIII	
		Kocref Cr-reit XI	
Other related parties	KB Financial Group Inc.	KB Financial Group Inc.	Entity exercising significant influence
	Kookmin Bank	Kookmin Bank	
	KB Kookmin Card Co., Ltd	KB Kookmin Card Co., Ltd	
	KB Securities Co., Ltd	KB Securities Co., Ltd	
	KB Life Insurance Co., Ltd	KB Life Insurance Co., Ltd	
	KB Asset Management Co., Ltd	KB Asset Management Co., Ltd	Subsidiary of KB Financial Group
	KB Capital Co., Ltd	KB Capital Co., Ltd	
	KB Savings Bank Co., Ltd	KB Savings Bank Co., Ltd	
	KB Real Estate Trust Co., Ltd	KB Real Estate Trust Co., Ltd	
	KB Investment Co., Ltd	KB Investment Co., Ltd	
	KB Credit Information Co., Ltd	KB Credit Information Co., Ltd	
	KB Data Systems Co., Ltd	KB Data Systems Co., Ltd	

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

(3) Significant transactions which occurred in the normal course of business with related parties for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	Related parties	2016	
		Revenues	Expenses
Subsidiaries	Leading Insurance Services, Inc.	₩ -	₩ 14,263
	LIG Insurance (China) Co., Ltd	1,896	391
	PT. KB Insurance Indonesia Inc.	1,666	305
	CAPE Investment & Securities Co., Ltd (Formerly LIG Investment & Securities Co., Ltd)	26	-
	KB Claims Survey & Adjusting Co., Ltd	3,739	101,873
	KB Sonbo CNS Co., Ltd	3,248	33,342
	KB Golden Life Care Co., Ltd	10	-
BC	Dongbu Private Fund 16th	1,308	-
	KB Hope Partner Private Fund Bond 1st	2,002	-
	Daishin Forte Alpha Private Fund 30th	345	-
	Daishin Forte Alpha Private Fund 31st	665	-
	Daishin Forte Alpha Private Fund 32nd	350	-
	Daishin Forte Alpha Private Fund 33rd	348	-
	Mirae Asset Triumph Private Equity Investment Trust 38th	1,640	-
	Shinhan BNPP Private Fund 42nd	1,582	-
	Hyundai Aviation Private Fund 3rd	1,111	-
	Daishin Forte Alpha Private Fund 43rd	247	-
	Daishin Forte Alpha Private Fund 44th	388	-
	Hyundai Power Private Fund 3rd	1,086	-
	Hana Landchip Private Fund 58th	711	-
Associates	Kocref Cr-reit XI	8,159	-
Others	KB Financial Group Inc.	436	4
	Kookmin Bank	16,186	17,689
	KB Kookmin Card Co., Ltd	4,771	10,514
	KB Securities Co., Ltd	1,161	101
	KB Life Insurance Co., Ltd	295	-
	KB Asset Management Co., Ltd	103	515
	KB Capital Co., Ltd	4,430	3,106
	KB Savings Bank Co., Ltd	147	-
	KB Real Estate Trust Co., Ltd	70	-
	KB Investment Co., Ltd	34	-
	KB Credit Information Co., Ltd	6	714
	KB Data Systems	74	170
	KB Savings Bank Co., Ltd.	\ 58,240	\ 182,987
	KB Real Estate Trust Co., Ltd.	32	-
	KB Investment Co., Ltd.	16	-
	KB Credit Information Co., Ltd.	4	194
	KB Data Systems	34	-
	LIG System Co., Ltd.	600	14,369
	Huseco Co., Ltd.	223	17,859
	Lshop Co., Ltd.	1	4,389
	LIG NEX 1 Co., Ltd.	278	1
	LIG Corp and others	319	422
		₩ 39,208	₩ 191,104

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

(In millions of won)	Related parties	2015	
		Revenues	Expenses
Subsidiaries	Leading Insurance Services, Inc.	₩ –	₩ 12,563
	LIG Insurance (China) Co., Ltd	480	250
	PT. KB Insurance Indonesia Inc	2,696	1,017
	CAPE Securities Co., Ltd (Formerly LIG Investment & Securities Co., Ltd)	346	327
	KB Claims Survey & Adjusting Co., Ltd	3,418	97,608
	KB Sonbo CNS Co., Ltd	2,958	32,300
BC	KB Smart Stepup Private Fund 2nd	384	-
	KB Smart Stepup Private Fund 4th	308	-
	Dongbu Private Fund 16th	2,300	-
	Hyundai Aviation Private Fund 2nd	825	-
	KB Hope Partner Private Fund Bond 1st	1,901	-
	Hanwha Private Equity Securities Investment Trust 86th	2,132	-
	KB Smart Stepup Private Fund 3rd	239	-
	Daishin Forte Alpha Private Fund 30th	799	-
	Daishin Forte Alpha Private Fund 31st	1,522	-
	Daishin Forte Alpha Private Fund 32nd	711	-
	Daishin Forte Alpha Private Fund 33rd	706	-
	Daishin Forte Alpha Private Fund 36th	430	-
	Mirae Asset Triumph Private Equity Investment Trust 38th	2,278	-
	Shinhan BNPP Private Fund 42nd	2,232	-
	Hyundai Aviation Private Fund 3rd	1,233	-
	Daishin Forte Alpha Private Fund 43rd	497	-
	Daishin Forte Alpha Private Fund 44th	275	-
	Hyundai Power Private Fund 3rd	518	-
Associates	Kocref Cr-reit VIII	6	11
	Kocref Cr-reit XI	1,784	-
Others	KB Financial Group Inc.	343	1
	Kookmin Bank	3,031	5,260
	KB Kookmin Card Co., Ltd	1,649	4,139
	KB Securities Co., Ltd	233	17
	KB Life Insurance Co., Ltd	118	4
	KB Asset Management Co., Ltd	42	-
	KB Capital Co., Ltd	1,269	368
	KB Savings Bank Co., Ltd	38	5
	KB Real Estate Trust Co., Ltd	32	-
	KB Investment Co., Ltd	16	-
	KB Credit Information Co., Ltd	4	194
	KB Data Systems	34	-
	LIG System Co., Ltd	600	14,369
	Huseco Co., Ltd	223	17,859
	Lshop Co., Ltd	1	4,389
	LIG NEX 1 Co., Ltd	278	1
	LIG Corp and others	319	422
		₩ 39,208	₩ 191,104

In accordance with Korean IFRS 1024, the Company includes parent, subsidiaries, parent's subsidiaries, associates, associates of parent's subsidiaries, key management (including family members), and post-employment benefit plans of the Company and entities regarded as its related parties in the scope of its related parties. Additionally, the Company discloses balances (receivables and payables) and other amounts arising from the related party transactions in the notes to the separate financial statements.

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

(4) The financing transactions with the related parties for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won) Relationship	Related parties	2016 Investment	2016 Collection
Subsidiaries in consolidation	KB Golden Life Care Co., Ltd	₩ 20,000	₩ -
BC	Hanwha Private Equity Securities Investment Trust 86th	-	50,045
	KB Smart Stepup Private Fund 3rd	-	9,660
	KB Smart Stepup Private Fund 4th	-	9,891
	Dongbu Private Fund 16th	1,253	1,627
	Hana Landchip Private Fund 58th	1,971	767
	Hyundai Power Private Fund 3rd	-	544
	Hyundai Aviation Private Fund 3rd	1,188	2,935
	Hyundai Power Professional Investment Type Private Investment Fund No.4	43,561	-
	KB U.S. LongShort Private Securities Fund 1	20,000	-
Associate	Kocref Cr-reit XI	-	17,983
Others	KB Wise Star private Real Estate Investment Trust No. 2	20,000	-
		₩ 107,973	₩ 93,452

(In millions of won) Relationship	Related parties	2015 Investment	2015 Collection
BC	KB Smart Stepup Private Fund 2nd	₩ -	₩ 19,465
	Dongbu Private Fund 16th	10,845	-
	Hyundai Aviation Private Fund 2nd	-	21,644
	Shinhan BNPP Private Fund V-12th	-	20,058
	Pheonix Blue DIP Private Fund 4th	-	992
	Hyundai Power Private Fund 3rd	21,955	-
		₩ 32,800	₩ 62,159

(5) Account balances with related parties as of December 31, 2016 and 2015, are as follows:

(In millions of won)	Related parties	2016 Receivables	2016 Payables
Subsidiaries	Leading Insurance Services, Inc.	₩ -	₩ 2,543
	LIG Insurance (China) Co., Ltd	1,629	49
	PT. KB Insurance Indonesia Inc.	96	46
	KB Claims Survey & Adjusting Co., Ltd	74	18,886
	KB Sonbo CNS Co., Ltd	43	642
	KB Golden Life Care Co., Ltd	-	144
Others	KB Financial Group Inc.	-	6,349
	Kookmin Bank 1	26,532	12,549
	KB Kookmin Card Co., Ltd 2	7,943	6,808
	KB Securities Co., Ltd	10,889	1,639
	KB Life Insurance Co., Ltd	4	213
	KB Asset Management Co., Ltd	-	289
	KB Capital Co., Ltd	241	2,282
	KB Data Systems	-	53
	KB Real Estate Trust Co., Ltd	-	35
	KB Investment Co., Ltd	-	16
	KB Savings Bank Co., Ltd	-	121
	KB Credit Information Co., Ltd	-	57
	Retirement Pension	-	21,641
		₩ 47,451	₩ 74,362

[1] As of December 31, 2016, notional amount of financial derivatives assets and liabilities to Kookmin Bank amounts to ₩ 250,694 million

[2] As of December 31, 2016, limit of unused commitment to KB Kookmin Card Co., Ltd amounts to ₩19,296 million.

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

(In millions of won)	Related parties	2015 Receivables	2015 Payables
	Leading Insurance Services, Inc.	₩ -	₩ 954
	LIG Insurance (China) Co., Ltd	388	-
	PT. KB Insurance Indonesia Inc. (previously, PT. LIG Insurance).	473	41
	CAPE Investment & Securities Co., Ltd (Formerly LIG Investment & Securities Co., Ltd)	308	430
	KB Claims Survey & Adjusting Co., Ltd (previously, LIG Claims Survey & Adjusting Co., Ltd)	9	17,944
Subsidiaries	KB Sonbo CNS Co., Ltd	-	513
Investments in associates	Kocref Cr-reit XI	18,188	-
	Kookmin Bank 1	1,856	5,228
Others	KB Kookmin Card Co., Ltd 2	6,446	6,581
	KB Securities Co., Ltd	8	65
	KB Life Insurance Co., Ltd	20	64
	KB Capital Co., Ltd	4	-
	KB Credit Information Co., Ltd	-	14
	Retirement Pension	-	19,584
		₩ 27,700	₩ 51,418

[1] As of December 31, 2015, commitment notional amount of financial derivatives assets and liabilities to Kookmin Bank amounts to ₩ 56,493 million

[2] As of December 31, 2015, limit of unused commitment to KB Kookmin Card Co., Ltd amounts to ₩20,256 million.

(6) Collateral the Company provide to the related parties as of December 31, 2016 and 2015, is as follows:

(In millions of won)	Collateral asset	2016	2015
Kookmin Bank	Government bond	50,000	-

(7) The details of assets pledged as collaterals from related parties as of December 31, 2016 and 2015, are as follows:

(In millions of won)	Assets pledged as collateral	2016	2015
KB Wise Star private Real Estate Investment Trust No. 2	Building/Land	26,000	26,000
Kookmin Bank	Securities	50,000	-

(8) Undrawn commitments the Company provided for related parties, as of December 31, 2016 and 2015, are as follows:

(In millions of won)	Related party	2016	2015
Purchase of security investment	KB-Solidus Global Healthcare Fund	8,200	-
Purchase of security investment	KB High-tech Company Investment Fund	2,800	-

(9) Commitments provided by related parties as of December 31, 2016 and 2015, are as follows:

(In millions of won)	Related party	2016	2015
Loan commitments	Kookmin Bank	-	20,000

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

(10) Key management personnel, including registered directors and non-registered outside directors compensation for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Short-term employee benefits	₩ 5,652	₩ 6,190
Retirement benefits	345	955
	₩ 5,997	₩ 7,145

(11) Loans for management personnel and employees as of December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Loans secured by real estate	₩ 242	₩ 300
Loans secured by third party guarantees	15,677	18,601
	₩ 15,919	₩ 18,901

47. Separate account

Separate account statements of financial position as of December 31, 2015 and 2014, are as follows:

(In millions of won)	2016		2015	
	Retirement insurance	Retirement pension	Retirement insurance	Retirement pension
Assets[1]				
Cash and cash equivalents	₩ 9,552	₩ 75,696	₩ 11,273	₩ 218,287
Financial assets at fair value through profit or loss	-	100,800	-	223,051
Available-for-sale financial assets	-	2,302,531	-	1,820,689
Held-to-maturity financial assets	-	10,000	-	10,000
Derivative assets to hedge	-	919	-	637
Loans and other receivables	-	506,509	-	438,097
Non-financial assets	-	3	-	3
General accounts receivable	142	385,085	1,487	292,536
	9,694	3,381,543	12,760	3,003,300
Liabilities2				
Other financial liabilities	4	6,370	6	14,992
General accounts receivable	34	(6)	54	9,597
Policyholders reserve (insurance)	9,656	-	12,700	-
Policyholders reserve (investment)	-	3,369,501	-	2,964,105
	9,694	3,375,865	12,760	2,988,694
Equity				
Accumulated other comprehensive income		5,678	-	14,606
	₩ 9,694	₩ 3,381,543	₩ 12,760	₩ 3,003,300

[1] Separate account asset in the financial statement is the total amount of retirement insurance asset and retirement pension asset less the general accounts receivable.

[2] Separate account liability in the financial statement is the total amount of retirement insurance liability and retirement pension liability less the general account payable.

NOTES TO SEPARATE FINANCIAL STATEMENTS

December 31, 2016 and 2015

Separate account statements of comprehensive Income for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016		2015	
	Retirement insurance	Retirement pension	Retirement insurance	Retirement pension
Income				
Premium income	₩ -	₩ -	₩ 1,360	₩ -
Investment income	147	98,970	197	95,364
Other operating income	134	1,309	113	1,445
	281	100,279	1,670	96,809
Expenses				
Policyholders reserve (insurance)	(3,059)	-	939	-
Policyholders reserve (investment)	-	60,202	-	55,022
Insurance claims paid	3,258	-	642	-
Investment expenses	18	18,691	16	24,053
Other operating expenses	64	21,386	73	17,734
	₩ 281	₩ 100,279	₩ 1,670	₩ 96,809

The revenue and expense of participating type specific account (participating retirement pension insurance) were not presented in the statements of comprehensive income of the general account. Revenue and expense of participating type specific account included in the operating performance above for the years ended December 31, 2016 and 2015 were ₩2,469 million and ₩ 3,529 million, respectively.

48. Supplemental cash flows information

Cash and cash equivalents in statements of cash flows include deposits that have a short maturity of three months or less from the date of acquisition

Significant non-cash activities for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)	2016	2015
Transfer from investment property to owner-occupied property and equipment	₩ 2,620	₩ 24,901
Transfer from investment property to asset held for sale	8,273	128,830
Transfer from net receivable and payable of Available-for-sale financial asset	-	3,925

49. Operating income

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

(In millions of won)	2016	2015
Operating revenue		
Insurance operating revenue	₩ 10,063,895	₩ 9,812,950
Investment revenue	886,682	837,854
Other operating revenue	315,991	352,608
	11,266,568	11,003,412
Operating expenses		
Insurance operating expenses	10,333,530	10,255,597
Investment expenses	349,215	375,945
Other operating expenses	190,381	143,912
	10,873,126	10,775,454
Operating income	₩ 393,442	₩ 227,958

REPORT ON INDEPENDENT AUDITOR'S REVIEW OF INTERNAL ACCOUNTING CONTROL SYSTEM

To the President of
KB Insurance Co., Ltd

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of KB Insurance Co., Ltd as of December 31, 2016. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2016, the Company's IACS has been designed and is operating effectively as of December 31, 2016, in all material respects, in accordance with the IACS standards.

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

A company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the Republic of Korea. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with the IACS standards established by IACSOC.

Our review is based on the Company's IACS as of December 31, 2016, and we did not review management's assessment of its IACS subsequent to December 31, 2016. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers
Seoul, Korea
March 8, 2017

Notice to Readers
This report is annexed in relation to the audit of the separate financial statements as of December 31, 2016 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

REPORT ON THE OPERATIONS OF THE INTERNAL ACCOUNTING CONTROL SYSTEM

To the Board of Directors and Audit Committee of
KB Insurance Co., Ltd.:

I, as the Internal Accounting Control Officer ("IACO") of KB Insurance Co., Ltd.("the Company"), assessed the status of the of the design and operation of the Company's Internal accounting control system ("IACS") for the year ending December 31, 2016.

The Company's management, including IACO is responsible for designing and operating IACS. I as the IACO, assessed whether the IACS has beeen effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements. for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS standard (name of other standard, if used) for the assessment of design and operations of the IACS.

Based on the assessment on the operations of the IACS the Company's IACS has been effectively designed and is operating as of December 31, 2016, in all material respects, in accordance with the IACS standards.

〈Attachment〉
I. FY2016 The Basis for conclusion of assessment on effectiveness of design of the IACS.
II. FY2016 The Basis for conclusion of assessment on effectiveness of design of the IACS.

Febuary 21, 2017

Bon-Wook Koo, Internal Accounting Control Officer

Jong-Hee Yang, Chief Executive Officer

Awards

2000

JANUARY

- "Top 30 Information-Oriented Companies," by Ministry of Information & Communication

2006

JANUARY

- "A- (Excellent)" rating by A.M. Best of the USA

FEBRUARY

- Grand Prix award (in finance category)
- Grand Prize at Korea First Brand Awards for L-Flower (in long-term insurance category)

JUNE

- Best Korea Service Quality Index (KSQI) Call Center by KMAC

JULY

- Gold Prize at 7th annual Korean e-Finance Awards

NOVEMBER

- "A-(Excellent)" rating from A.M. Best of the USA

DECEMBER

- Grand Prize at 2006 Korea Management Awards, from Korea Management Association (KMAC) (in innovative management category)

2007

AUGUST

- Grand Prize at 16th Korea Marketing Frontier Awards (in corporate image category)

2008

DECEMBER

- Innovative Product award from Herald Business (for LIG Wellbeing Insurance, in product development category)
- Bronze Prize at first Korea Community Service Awards (for LIG Hope Volunteer Group)

2009

JANUARY

- First Prize at Korea Financial Masterpiece Awards from e-daily (for LG Wellbeing Insurance, in non-life insurance category)

MARCH

- Special Prize at 14th Maekyung Financial Products Awards (for LG Hope Plus Children Insurance)

JUNE

- Best KSQI Call Center by KMAC for second consecutive year

OCTOBER

- Grand Prize at 2009 Premium Brand Awards (in non-life insurance category)

NOVEMBER

- Grand Prize at 2009 Grand Awards for Excellence in Sustainability Management (in social contributions category)
- Minister of Knowledge Economy Award at 2009 Korea IT Innovation Awards

DECEMBER

- First Prize at Web Awards Korea 2009 (for homepage, in insurance category)

2010

APRIL

- Won Minister of Labor Award as "Company with Excellent Gender Equality Culture"

OCTOBER

- Won gold prize at Daegu City Architecture Award (for Daegu office building, in environmentally friendly category)

NOVEMBER

- Won Innovative Product Award from Herald Business (for LIG YOU Plus Health Insurance, in marketing category)

DECEMBER

- Ranked first in "2010 Korea Internet Communications Satisfaction Index" survey conducted by Korea Internet Communication Association (in insurance category)
- Won grand prize for mobile web technology innovation at "SEVENTH ANNUAL WEB AWARDS KOREA & iECO AWARDS 2010"
- Won Grand Prize at "Asia Financial Culture" Awards from Asia Economy (for LIG Hope Plus Children's Insurance, in hit products category)

2011

SEPTEMBER

- Won grand prize at 35th National Productivity Awards in General category

OCTOBER

- Won Non-Life Insurance Innovation Award at 2011 Korea Financial Innovation Awards

DECEMBER

- Named Best New Financial Product by Financial Supervisory Service

NOVEMBER

- Named Hit Product of the Year in General Insurance Category by Chosun Ilbo

2012

FEBRUARY

- LIG Hope Plus Children's Insurance named Hit Product of the Year in General Insurance category by Chosun Ilbo.

MAY

- Won grand prize at 2012 Customer-Loving Brand Awards from Korea JoongAng Daily

JULY

- Obtained ISO 22301 certification, a first for a Korean company

NOVEMBER

- Won Innovation Award in Product Development category at 16th annual Herald Business Insurance Awards
- Ranked first in General Insurance category in fifth annual Korea Internet Communication Satisfaction Index and Korea Social Communication Satisfaction Index surveys
- Named Best Call Center in Non-Life Insurance category by KS-CQI

DECEMBER

- Won grand prize in Social Contributions category at 2012 Aju Finance Awards
- Won grand prize in Non-Life Insurance category at Korea blogawards 2012

2013

FEBRUARY

- Won grand prize at Korea Industry Excellence Awards from EDAILY for LIG 110 Long-Term Care Insurance

MAY

- Won grand prize at 2013 Customer-Loving Brand Awards from Korea JoongAng Daily

AUGUST

- Grand prize in the insurance category at the 3rd Korea SNS Awards

NOVEMBER

- Grand prize in the insurance category at the 6thKorea Internet Communication Awards (second year in a row)

DECEMBER

- Grand prize in the insurance category at the 10th Web Awards Korea
- Grand prize in the financial information category at the Aju Economic Financial/ Securities Awards

2014

APRIL

- Web Accessibility Certification Mark awarded

MAY

- Grand prize at 2013 Customer Loving Brand Awards (third year in a row)

2015

JULY

- KB Insurance awarded Comprehensive Grand Prize in Korea Service Awards hosted by the Standards Institute

NOVEMBER

- KB Insurance wins Grand Prize in Internet service sector and non-life insurance sector of eighth Korea Internet Communication Awards

2016

MAY

- 'Kb hope plus children's insurance' awarded grand prize in the insurance for children sector of the 2016 customer loving brand awards for a fifth consecutive year

NOVEMBER

- KB Insurance awarded Grand Prize in the enterprise sector of the Ninth Korea Internet Communication Award for a fifth consecutive year

History

BEGINNINGS1959~1970

JANUARY 1959
- Established as Pan Korea Insurance Co., Ltd.
- March 1967: Obtained license to conduct auto insurance business

GROWTH 1970~1982

APRIL 1970
- Acquired by Lucky-Gold Star Group

JUNE 1976
- Initial public offering

MAY 1978
- Opened London Liaison Office

DEVELOPING 1982~1997

SEPTEMBER 1983
- Obtained license to continue in auto insurance business

JULY 1987
- Opened New York Liaison Office

MARCH 1988
- Opened Customer Plaza, a first in the industry

OCTOBER 1988
- Opened Tokyo Liaison Office

MARCH 1990
- Opened USA branch

JUNE 1992
- Opened Jakarta Liaison Office

FEBRUARY 1993
- Opened Los Angeles Liaison Office

JUNE 1995
- Company name changed to LG Insurance Co., Ltd.

JUNE 1995
- Opened Hanoi Liaison Office

MARCH 1996
- Launched Magic Car Service, a first in the industry

APRIL 1996
- Opened Beijing Liaison Office

TRANSFORMING 1998~2002

SEPTEMBER 1997
- Obtained business license for local subsidiary in Indonesia

NOVEMBER 1999
- Spun off from LG Group

JANUARY 2000
- Announced new corporate identity and vision for new millennium

TAKING OFF 2002~2010

MAY 2002
- New CEO, Mr. Cha-Joon Koo, took office

FEBRUARY 2003
- Opened Shanghai Liaison Office

APRIL 2003
- Opened Magic Car Call Center

MAY 2003
- Announced Vision 2010

JUNE 2004
- Mr. Ki-Young Lee appointed CEO of LG Fire Insurance

APRIL 2006
- Company name changed to LIG Insurance Co., Ltd.

APRIL 2006
- Announced new corporate identity

AUGUST 2006
- Opened first LIG Art Hall

SEPTEMBER 2006
- Opened LBS in-house broadcasting system

DECEMBER 2006
- Mr. Woo-Jin Kim appointed CEO of LIG Insurance

APRIL 2007
- Signed letter of intent with city of Nanjing, China

MAY 2007
- Began construction of LIG Insurance Sacheon HRD Center

JANUARY 2008
- Launched Consumer Complaint Management System

SEPTEMBER 2008
- Opened first LIG Finance Plaza

DECEMBER 2008
- Won Innovation Award in Product Development category at Herald Business Insurance Awards for LIG Wellbeing Insurance
- Won Bronze Prize at first annual Korea Community Service Awards for LIG Hope Volunteer Group

FEBRUARY 2009
- Celebrated fiftieth anniversary
- Hosted LIG International CSR Forum in commemoration of fiftieth anniversary

MARCH 2009
- Inaugurated LIG Arts Foundation

JUNE 2009
- Named Best KSQI Call Center by KMAC for second consecutive year

JULY 2009
- Launched Newly Advanced Intelligent System

OCTOBER 2009
- Launched LIG Legal Expenses Insurance, a first for Korea

NOVEMBER 2009
- Launched "Baro One Service" to simplify insurance payments
- Launched LIG Insurance (China)

MARCH 2010
- Launched "Intellectual Property Insurance," an industry first

APRIL 2010
- Celebrated twentieth anniversary of USA branch

MAY 2010
- Assets exceeded KRW 10 trillion

AUGUST 2010
- Launched new Voice of Customers system
- Hosted 2010 LIG Classic golf tournament

OCTOBER 2010
- Inaugurated Antarctic Green Expedition tournament

NOVEMBER 2010
- Obtained official "greenhouse gas inventory" certificate, a first for the industry

PRESENT 2011~2016

JANUARY 2011
- Obtained "A- (Excellent)" credit rating from A.M. Best
- Obtained exclusive right to use "LIG Legal Expenses Insurance" product for six months, a first for the industry

MARCH 2011
- Completed Busan office building
- Obtained BS 25999 Business Continuity Management System Certification

JUNE 2011
- Received industry's first "AAA" rating in Voice of Customer Management System certifications

SEPTEMBER 2011
- Completed construction of LIG Insurance Sacheon HRD Center

MARCH 2012
- Inaugurated first-term "LIG Hope Supporters" consumer panel

APRIL 2012
- Launched Magic Car 24 emergency roadside service
- Hosted tenth annual LIG Korea Open Marathon

JUNE 2012
- Obtained ISO 22301, a first for a Korean company

AUGUST 2012
- Hosted LIG Hope Dream Camp

OCTOBER 2012
- Opened LIG ART SPACE at office building in Hapjeong-dong, Seoul
- Held 2012 LIG Hope Bazaar

NOVEMBER 2012
- Named Best Call Center in Non-Life Insurance category by KS-CQI
- Hosted LIG Magic Car Partner Win-Win Festival

JANUARY 2013
- Obtained "A-" credit rating for ninth consecutive year from A.M. Best

APRIL 2012
- New CEO, Mr. Byung-Hun Kim, took office
- Launched LIG Magic Car Direct Automobile Insurance

JUNE 2013
- Built twenty-seventh LIG House of Hop

JULY 2013
- Flat Tire Service rolled out, an industry first

DECEMBER 2013
- The 6th Online College Supporters inaugurated

JANUARY 2014
- NFC-based No-worry Taxi Call Service introduced, an industry first
- LIG Win-win Market introduced
- A.M. Best's "A-" rating awarded, for 10th in a row

FEBRUARY 2014
- Free Scoliosis Diagnosis Bus Service introduced

MARCH 2014
- The 56th General Shareholders' Meetingheld

APRIL 2014
- 'Gold Member's Day 2014' held

MAY 2014
- Festival held by LIG Hope Volunteer Group celebrating its 10th anniversary

JUNE 2015
- Company name changed to KB Insurance Co., Ltd.

MARCH 2016
- President Jong-Hee Yang inaugurated as a new CEO

MAY 2016
- Accreditation of 2016 Korean Service Quality Index (KSQI) Call Center Division

Overseas Network

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