

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 20-F**

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2019
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.
OR
 SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report _____.
Commission file number 000-53445

KB Financial Group Inc.
(Exact name of Registrant as specified in its charter)

KB Financial Group Inc.
(Translation of Registrant's name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

26, Gukjegeumyung-ro 8-gil, Yeongdeungpo-gu, Seoul 07331, Korea

(Address of principal executive offices)

Peter BongJoong Kwon

11F, Kookmin Bank, 26, Gukjegeumyung-ro 8-gil, Yeongdeungpo-gu, Seoul 07331, Korea

Telephone No.: +82-2-2073-7807

Facsimile No.: +82-2-2073-2848

(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
American Depositary Shares, each representing one share of Common Stock	KB	New York Stock Exchange
Common Stock, par value ₩5,000 per share	KB	New York Stock Exchange*

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

389,634,335 shares of Common Stock, par value ₩5,000 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act: Yes No

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (§ 15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes No

* Not for trading, but only in connection with the registration of the American Depositary Shares.

TABLE OF CONTENTS

	PRESENTATION OF FINANCIAL AND OTHER INFORMATION	1
	FORWARD-LOOKING STATEMENTS	2
Item 1.	IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS	3
Item 2.	OFFER STATISTICS AND EXPECTED TIMETABLE	3
Item 3.	KEY INFORMATION	3
	Item 3.A. Selected Financial Data	3
	Item 3.B. Capitalization and Indebtedness	12
	Item 3.C. Reasons for the Offer and Use of Proceeds	12
	Item 3.D. Risk Factors	12
Item 4.	INFORMATION ON THE COMPANY	39
	Item 4.A. History and Development of the Company	39
	Item 4.B. Business Overview	40
	Item 4.C. Organizational Structure	121
	Item 4.D. Property, Plants and Equipment	123
Item 4A.	UNRESOLVED STAFF COMMENTS	124
Item 5.	OPERATING AND FINANCIAL REVIEW AND PROSPECTS	124
	Item 5.A. Operating Results	124
	Item 5.B. Liquidity and Capital Resources	165
	Item 5.C. Research and Development, Patents and Licenses, etc.	171
	Item 5.D. Trend Information	171
	Item 5.E. Off-Balance Sheet Arrangements	171
	Item 5.F. Tabular Disclosure of Contractual Obligations	171
	Item 5.G. Safe Harbor	171
Item 6.	DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	171
	Item 6.A. Directors and Senior Management	171
	Item 6.B. Compensation	177
	Item 6.C. Board Practices	177
	Item 6.D. Employees	179
	Item 6.E. Share Ownership	182
Item 7.	MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	183
	Item 7.A. Major Shareholders	183
	Item 7.B. Related Party Transactions	183
	Item 7.C. Interests of Experts and Counsel	183
Item 8.	FINANCIAL INFORMATION	184
	Item 8.A. Consolidated Statements and Other Financial Information	184
	Item 8.B. Significant Changes	186

Item 9.	THE OFFER AND LISTING	186
	Item 9.A. Offering and Listing Details	186
	Item 9.B. Plan of Distribution	188
	Item 9.C. Markets	188
	Item 9.D. Selling Shareholders	188
	Item 9.E. Dilution	189
	Item 9.F. Expenses of the Issue	189
Item 10.	ADDITIONAL INFORMATION	189
	Item 10.A. Share Capital	189
	Item 10.B. Memorandum and Articles of Association	189
	Item 10.C. Material Contracts	196
	Item 10.D. Exchange Controls	196
	Item 10.E. Taxation	197
	Item 10.F. Dividends and Paying Agents	202
	Item 10.G. Statement by Experts	202
	Item 10.H. Documents on Display	203
	Item 10.I. Subsidiary Information	203
Item 11.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	203
Item 12.	DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES	225
Item 13.	DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES	226
Item 14.	MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS	226
Item 15.	CONTROLS AND PROCEDURES	226
Item 16.	[RESERVED]	227
Item 16A.	AUDIT COMMITTEE FINANCIAL EXPERT	227
Item 16B.	CODE OF ETHICS	227
Item 16C.	PRINCIPAL ACCOUNTANT FEES AND SERVICES	228
Item 16D.	EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES	228
Item 16E.	PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS	229
Item 16F.	CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT	229
Item 16G.	CORPORATE GOVERNANCE	230
Item 16H.	MINE SAFETY DISCLOSURE	232
Item 17.	FINANCIAL STATEMENTS	232
Item 18.	FINANCIAL STATEMENTS	232
Item 19.	EXHIBITS	232

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The financial statements included in this annual report are prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB. As such, we make an explicit and unreserved statement of compliance with IFRS as issued by the IASB with respect to our consolidated financial statements as of December 31, 2018 and 2019 and for the years ended December 31, 2017, 2018 and 2019 included in this annual report. Unless indicated otherwise, the financial information in this annual report as of and for the years ended December 31, 2015, 2016, 2017, 2018 and 2019 has been prepared in accordance with IFRS as issued by the IASB, which is not comparable to information prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP.

In accordance with rule amendments adopted by the U.S. Securities and Exchange Commission which became effective on March 4, 2008, we are not required to provide a reconciliation to U.S. GAAP.

Unless expressly stated otherwise, all financial data included in this annual report are presented on a consolidated basis.

In this annual report:

- references to “we,” “us” or “KB Financial Group” are to KB Financial Group Inc. and, unless the context otherwise requires, its subsidiaries;
- references to “Korea” are to the Republic of Korea;
- references to the “government” are to the government of the Republic of Korea;
- references to “Won” or “₩” are to the currency of Korea; and
- references to “U.S. dollars,” “\$” or “US\$” are to United States dollars.

Discrepancies between totals and the sums of the amounts contained in any table may be a result of rounding.

For your convenience, this annual report contains translations of Won amounts into U.S. dollars at the noon buying rate of the Federal Reserve Bank of New York for Won in effect on December 31, 2019, which was ₩1,155.46 = US\$1.00.

FORWARD-LOOKING STATEMENTS

The U.S. Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This annual report contains forward-looking statements.

Words and phrases such as "aim," "anticipate," "assume," "believe," "contemplate," "continue," "estimate," "expect," "future," "goal," "intend," "may," "objective," "plan," "positioned," "predict," "project," "risk," "seek to," "shall," "should," "will likely result," "will pursue," "plan" and words and terms of similar substance used in connection with any discussion of future operating or financial performance or our expectations, plans, projections or business prospects identify forward-looking statements. In particular, the statements under the headings "Item 3.D. Risk Factors," "Item 5. Operating and Financial Review and Prospects" and "Item 4.B. Business Overview" regarding our financial condition and other future events or prospects are forward-looking statements. All forward-looking statements are management's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

In addition to the risks related to our business discussed under "Item 3.D. Risk Factors," other factors could cause actual results to differ materially from those described in the forward-looking statements. These factors include, but are not limited to:

- our ability to successfully implement our strategy;
- future levels of non-performing loans;
- our growth and expansion;
- the adequacy of allowances for credit and investment losses;
- technological changes;
- interest rates;
- investment income;
- availability of funding and liquidity;
- cash flow projections;
- our exposure to market risks; and
- adverse market and regulatory conditions.

By their nature, certain disclosures relating to these and other risks are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains, losses or impact on our income or results of operations could materially differ from those that have been estimated. For example, revenues could decrease, costs could increase, capital costs could increase, capital investment could be delayed and anticipated improvements in performance might not be fully realized.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this annual report could include, but are not limited to:

- the occurrence of severe health epidemics (including the ongoing outbreak of the COVID-19 pandemic), in Korea or other parts of the world;
- general economic and political conditions in Korea or other countries that have an impact on our business activities or investments;
- the monetary and interest rate policies of Korea;

- inflation or deflation;
- unanticipated volatility in interest rates;
- foreign exchange rates;
- prices and yields of equity and debt securities;
- the performance of the financial markets in Korea and globally;
- changes in domestic and foreign laws, regulations and taxes;
- changes in competition and the pricing environments in Korea; and
- regional or general changes in asset valuations.

For further discussion of the factors that could cause actual results to differ, see the discussion under “Item 3.D. Risk Factors” contained in this annual report. We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this annual report. Except as required by law, we are not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

All subsequent forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this annual report.

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

Item 3. KEY INFORMATION

Item 3.A. Selected Financial Data

The selected consolidated financial and operating data as of and for the years ended December 31, 2015, 2016, 2017, 2018 and 2019 set forth below have been derived from our audited consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB. Our consolidated financial statements as of and for the years ended December 31, 2015, 2016, 2017, 2018 and 2019 have been audited by independent registered public accounting firm Samil PricewaterhouseCoopers.

IFRS 9 *Financial Instruments*, or IFRS 9, is effective for annual periods beginning on or after January 1, 2018 and replaces International Accounting Standard 39 *Financial Instruments: Recognition and Measurement*, or IAS 39. We have applied IFRS 9 in our consolidated financial statements as of and for the years ended December 31, 2018 and 2019 included elsewhere in this annual report. As permitted by the transition rules of IFRS 9, our consolidated financial statements as of and for the year ended December 31, 2017 included elsewhere in this annual report have not been restated to retroactively apply IFRS 9.

You should read the following data together with the more detailed information contained in “Item 5. Operating and Financial Review and Prospects” and our consolidated financial statements included elsewhere in this annual report. Historical results do not necessarily predict future results.

Consolidated statements of comprehensive income data

	Year Ended December 31,					
	2015	2016	2017	2018 ⁽¹⁾	2019 ⁽¹⁾	2019 ⁽¹⁾⁽²⁾
	(in billions of Won, except common share data)					(in millions of US\$, except common share data)
Interest income	₩ 10,617	₩ 10,335	₩ 11,919	₩ 13,735	₩ 14,639	US\$ 12,669
Interest expense	(4,173)	(3,619)	(3,672)	(4,830)	(5,442)	(4,710)
Net interest income	6,444	6,716	8,247	8,905	9,197	7,959
Fee and commission income	2,971	3,151	3,988	3,718	3,879	3,357
Fee and commission expense	(1,436)	(1,566)	(1,938)	(1,474)	(1,524)	(1,319)
Net fee and commission income	1,535	1,585	2,050	2,243	2,355	2,038
Insurance income	1,373	1,201	8,971	11,975	12,317	10,660
Insurance expense	(1,479)	(1,319)	(8,377)	(11,485)	(12,018)	(10,401)
Net insurance income (expenses)	(106)	(118)	594	490	300	259
Net gains on financial assets and liabilities at fair value through profit or loss	—	—	—	352	644	557
Net gains (losses) on financial assets and liabilities at fair value through profit or loss (under IAS 39)	119	(322)	203	—	—	—
Net other operating income (expenses)	(610)	(416)	(902)	(1,130)	(1,063)	(920)
General and administrative expenses	(4,524)	(5,229)	(5,629)	(5,919)	(6,271)	(5,427)
Operating profit before provision for credit losses	2,858	2,216	4,563	4,941	5,161	4,466
Provision for credit losses	(1,037)	(539)	(548)	(674)	(670)	(580)
Net operating profit	1,821	1,677	4,015	4,267	4,491	3,886
Share of profit of associates and joint ventures	203	281	84	24	16	14
Net other non-operating income	140	671	39	10	27	24
Net non-operating profit	343	952	123	34	43	38
Profit before income tax	2,164	2,629	4,138	4,302	4,534	3,924
Tax expenses	(437)	(439)	(795)	(1,240)	(1,221)	(1,057)
Profit for the year	₩ 1,727	₩ 2,190	₩ 3,343	₩ 3,062	₩ 3,313	US\$ 2,867
Items that will not be reclassified to profit or loss:						
Remeasurements of net defined benefit	(23)	13	23	(138)	(56)	(48)
Shares of other comprehensive income (loss) of associates and joint ventures	—	4	—	(0)	(0)	(0)
Revaluation losses on equity instruments at fair value through other comprehensive income	—	—	—	(31)	(17)	(15)
Fair value changes on financial liabilities designated at fair value due to own credit risk	—	—	—	1	(11)	(10)
Items that may be reclassified subsequently to profit or loss:						
Exchange differences on translating foreign operations	45	20	(110)	49	38	33
Net gains on financial instruments at fair value through other comprehensive income	—	—	—	119	35	31
Valuation gains (losses) on financial investments	(29)	(48)	89	—	—	—
Shares of other comprehensive income (loss) of associates and joint ventures	—	(11)	101	(4)	8	7
Cash flow hedges	1	4	21	(9)	(33)	(29)
Gains (losses) on hedges of a net investment in a foreign operation	(25)	(7)	27	(27)	(9)	(8)
Other comprehensive income (loss) of separate account	—	—	(14)	30	3	3
Net gains on overlay adjustment	—	—	—	0	194	168
Other comprehensive income (loss) for the year, net of tax	(31)	(25)	136	(10)	152	132
Total comprehensive income for the year	₩ 1,696	₩ 2,165	₩ 3,480	₩ 3,052	₩ 3,465	US\$ 2,999
Profit attributable to:						
Shareholders of the parent company	₩ 1,698	₩ 2,144	₩ 3,311	₩ 3,061	₩ 3,312	US\$ 2,866
Non-controlling interests	29	46	32	1	1	1
	₩ 1,727	₩ 2,190	₩ 3,343	₩ 3,062	₩ 3,313	US\$ 2,867
Total comprehensive income attributable to:						
Shareholders of the parent company	₩ 1,667	₩ 2,119	₩ 3,446	₩ 3,051	₩ 3,464	US\$ 2,998
Non-controlling interests	29	46	34	1	2	1
	₩ 1,696	₩ 2,165	₩ 3,480	₩ 3,052	₩ 3,465	US\$ 2,999
Earnings per share						
Basic earnings per share	₩ 4,396	₩ 5,588	₩ 8,305	₩ 7,721	₩ 8,451	US\$ 7.31
Diluted earnings per share	4,376	5,559	8,257	7,676	8,389	7.26

-
- (1) Figures for 2018 and 2019 reflect the application of IFRS 9 and therefore may not be directly comparable to corresponding figures for prior years.
- (2) Won amounts are expressed in U.S. dollars at the rate of ₩1,155.46 to US\$1.00, the noon buying rate in effect on December 31, 2019 as quoted by the Federal Reserve Bank of New York in the United States.

Consolidated statements of financial position data

	Year Ended December 31,					
	2015	2016	2017	2018 ⁽¹⁾	2019 ⁽¹⁾	2019 ⁽¹⁾⁽²⁾
	(in billions of Won)					(in millions of US\$)
Assets						
Cash and due from financial institutions	₩ 16,316	₩ 17,885	₩ 19,818	₩ 20,274	₩ 20,838	US\$ 18,034
Financial assets at fair value through profit or loss	—	—	—	50,988	53,549	46,344
Financial assets at fair value through profit or loss (IAS 39)	11,174	27,858	32,227	—	—	—
Derivative financial assets	2,278	3,382	3,310	2,026	3,191	2,761
Loans	245,005	265,486	290,123	319,202	339,684	293,982
Financial investments	39,137	45,148	66,608	61,665	71,783	62,125
Investments in associates and joint ventures . .	1,738	1,771	335	505	598	518
Property and equipment	3,287	3,627	4,202	4,272	5,067	4,386
Investment property	212	755	849	2,120	2,828	2,447
Intangible assets	467	652	2,943	2,756	2,738	2,369
Net defined benefit assets	—	—	1	—	1	1
Current income tax assets	19	66	6	10	19	17
Deferred income tax assets	8	134	4	4	4	3
Assets held for sale	49	52	156	17	23	20
Other assets	9,375	8,858	16,204	15,749	18,216	15,765
Total assets	<u>₩329,065</u>	<u>₩375,674</u>	<u>₩436,786</u>	<u>₩479,588</u>	<u>₩518,538</u>	<u>US\$448,772</u>
Liabilities						
Financial liabilities at fair value through profit or loss	₩ —	₩ —	₩ —	₩ 15,327	₩ 15,368	US\$ 13,300
Financial liabilities at fair value through profit or loss (IAS 39)	2,975	12,123	12,023	—	—	—
Derivative financial liabilities	2,326	3,807	3,143	2,901	3,007	2,603
Deposits	224,268	239,731	255,800	276,770	305,593	264,477
Debts	16,241	26,251	28,821	33,005	37,819	32,731
Debentures	32,601	34,992	44,993	53,279	50,936	44,083
Provisions	607	538	568	526	528	457
Net defined benefit liabilities	73	96	155	262	254	220
Current income tax liabilities	31	442	434	699	432	374
Deferred income tax liabilities	179	103	533	493	778	673
Insurance contract liabilities	6,925	7,291	31,801	33,413	34,967	30,262
Other liabilities	13,937	19,039	24,470	27,200	29,737	25,736
Total liabilities	<u>₩300,163</u>	<u>₩344,413</u>	<u>₩402,741</u>	<u>₩443,875</u>	<u>₩479,419</u>	<u>US\$414,916</u>
Total Equity						
Capital stock	₩ 1,932	₩ 2,091	₩ 2,091	₩ 2,091	₩ 2,091	US\$ 1,809
Hybrid securities	—	—	—	—	399	345
Capital surplus	15,855	16,995	17,122	17,122	17,123	14,819
Accumulated other comprehensive income . .	429	405	538	178	348	301
Retained earnings	10,464	12,229	15,044	17,282	19,710	17,058
Treasury shares	—	(722)	(756)	(969)	(1,136)	(983)
Equity attributable to shareholders of the parent company	28,680	30,998	34,039	35,704	38,534	33,349
Non-controlling interests	222	263	6	9	585	507
Total equity	<u>₩ 28,902</u>	<u>₩ 31,261</u>	<u>₩ 34,045</u>	<u>₩ 35,713</u>	<u>₩ 39,119</u>	<u>US\$ 33,856</u>
Total liabilities and equity	<u>₩329,065</u>	<u>₩375,674</u>	<u>₩436,786</u>	<u>₩479,588</u>	<u>₩518,538</u>	<u>US\$448,772</u>

- (1) Figures as of December 31, 2018 and 2019 reflect the application of IFRS 9 and therefore may not be directly comparable to corresponding figures as of prior dates.
- (2) Won amounts are expressed in U.S. dollars at the rate of ₩1,155.46 to US\$1.00, the noon buying rate in effect on December 31, 2019 as quoted by the Federal Reserve Bank of New York in the United States.

Profitability ratios and other data

	As of or for the year Ended December 31,				
	2015	2016	2017	2018	2019
	(Percentages)				
Profit (loss) attributable to stockholders as a percentage of:					
Average total assets ⁽¹⁾	0.54%	0.62%	0.80%	0.67%	0.66%
Average stockholders' equity ⁽¹⁾	6.05	7.13	9.56	8.58	8.66
Dividend payout ratio ⁽²⁾	22.32	23.23	23.17	24.83	26.00
Net interest spread ⁽³⁾	2.05	2.01	2.11	2.05	1.96
Net interest margin ⁽⁴⁾	2.21	2.13	2.27	2.23	2.14
Efficiency ratio ⁽⁵⁾	61.28	69.14	58.65	57.08	56.33
Cost-to-average assets ratio ⁽⁶⁾	1.43	1.50	1.36	1.29	1.25
Won loans (gross) as a percentage of Won deposits	107.88	110.77	114.02	115.98	111.83
Total loans (gross) as a percentage of total deposits	110.40	111.69	114.24	116.27	111.94

- (1) Average balances are based on daily balances for our banking, credit card and investment and securities operations and monthly or quarterly balances for our other operations.
- (2) Represents the ratio of total dividends declared on common stock as a percentage of profit attributable to stockholders.
- (3) Represents the difference between the yield on average interest-earning assets and cost of average interest-bearing liabilities.
- (4) Represents the ratio of net interest income to average interest-earning assets, and reflects the application of the 2018 Accounting Policy Change.
- (5) Represents the ratio of general and administrative expenses to the sum of net interest income, net fee and commission income, net gain on financial assets and liabilities at fair value through profit or loss and net other operating income.
- (6) Represents the ratio of general and administrative expenses to average total assets.

Capital ratios

	As of or for the year Ended December 31,		
	2017	2018	2019
	(Percentages)		
Consolidated capital adequacy ratio of KB Financial Group ⁽¹⁾	15.23%	14.60%	14.48%
Capital adequacy ratios of Kookmin Bank			
Tier I capital adequacy ratio ⁽²⁾	14.86	14.33	14.68
Common equity Tier I capital adequacy ratio ⁽²⁾	14.86	14.33	14.37
Tier II capital adequacy ratio ⁽²⁾	1.16	1.19	1.17
Average stockholders' equity as a percentage of average total assets	8.37	7.75	7.65

- (1) Under applicable guidelines of the Financial Services Commission, we, as a bank holding company, were required to maintain a total minimum consolidated capital adequacy ratio of 11.5% (including applicable additional capital buffers and requirements) as of December 31, 2019. See "Item 4.B. Business Overview—Supervision and Regulation—Principal Regulations Applicable to Financial Holding Companies—Capital Adequacy."
- (2) Kookmin Bank's capital adequacy ratios are computed in accordance with the guidelines issued by the Financial Services Commission. See "Item 4.B. Business Overview—Supervision and Regulation—Principal Regulations Applicable to Banks—Capital Adequacy."

Credit portfolio ratios and other data

	As of December 31,				
	2015	2016	2017	2018	2019
	(in billions of Won, except percentages)				
Total loans ⁽¹⁾	₩247,587	₩267,764	₩292,233	₩321,811	₩342,092
Total non-performing loans ⁽²⁾	922	923	758	725	756
Other impaired loans not included in non-performing loans	2,075	1,613	1,509	1,377	1,151
Total of non-performing loans and other impaired loans	2,997	2,536	2,267	2,102	1,907
Total allowances for loan losses	2,582	2,278	2,110	2,609	2,408
Non-performing loans as a percentage of total loans	0.37%	0.34%	0.26%	0.23%	0.22%
Non-performing loans as a percentage of total assets	0.28%	0.25%	0.17%	0.15%	0.15%
Total of non-performing loans and other impaired loans as a percentage of total loans	1.21%	0.95%	0.78%	0.65%	0.56%
Allowances for loan losses as a percentage of total loans	1.04%	0.85%	0.72%	0.81%	0.70%

⁽¹⁾ Before deduction of allowances for loan losses.

⁽²⁾ Non-performing loans are defined as those loans, including corporate, retail and other loans, which are past due by 90 days or more.

Selected Statistical Information

Average Balance Sheets and Related Interest

The following table shows our average balances and interest rates for the past three years:

	Year Ended December 31,								
	2017			2018			2019		
	Average Balance ⁽¹⁾	Interest Income ⁽²⁾	Average Yield	Average Balance ⁽¹⁾	Interest Income ⁽²⁾	Average Yield	Average Balance ⁽¹⁾	Interest Income ⁽²⁾	Average Yield
(in billions of Won, except percentages)									
Assets									
Cash and interest earning deposits in other banks	₩ 9,620	₩ 126	1.31%	₩ 8,162	₩ 109	1.34%	₩ 10,436	₩ 151	1.45%
Financial assets at fair value through profit or loss (debt securities) ⁽³⁾	22,908	537	2.34	27,911	749	2.68	27,164	704	2.59
Financial investments (debt securities) ⁽⁴⁾	49,137	1,160	2.36	56,585	1,325	2.34	63,699	1,389	2.18
Loans:									
Corporate	123,004	3,962	3.22	134,938	4,471	3.31	141,600	4,788	3.38
Mortgage	60,944	1,683	2.76	65,799	1,994	3.03	72,897	2,233	3.06
Home equity	32,777	953	2.91	32,661	1,020	3.12	30,188	964	3.19
Other consumer ⁽⁵⁾	46,325	2,115	4.57	52,333	2,491	4.76	58,514	2,680	4.58
Credit cards ⁽⁶⁾	14,881	1,258	8.45	16,725	1,386	8.29	17,949	1,451	8.08
Foreign ⁽⁷⁾	3,607	125	3.47	4,254	190	4.47	6,599	279	4.23
Loans (total)	281,538	10,096	3.59	306,710	11,552	3.77	327,747	12,395	3.78
Total average interest-earning assets	₩363,203	₩11,919	3.28%	₩399,368	₩13,735	3.44%	₩429,046	₩14,639	3.41%
Cash and due from banks	10,494	—	—	11,072	—	—	11,681	—	—
Financial assets at fair value through profit or loss (excluding debt securities):									
Equity securities	3,849	—	—	4,646	—	—	5,576	—	—
Other	4,499	—	—	17,051	—	—	18,410	—	—
Financial assets at fair value through profit or loss (excluding debt securities) (total)	8,348	—	—	21,697	—	—	23,986	—	—
Financial investment (equity securities)	9,135	—	—	2,628	—	—	2,598	—	—
Investment in associates	968	—	—	432	—	—	575	—	—
Derivative financial assets	2,372	—	—	2,470	—	—	2,989	—	—
Premises and equipment	5,826	—	—	5,639	—	—	7,398	—	—
Intangible assets	2,409	—	—	2,839	—	—	2,720	—	—
Allowances for loan losses	(2,428)	—	—	(2,827)	—	—	(2,714)	—	—
Other non-interest-earning assets	13,405	—	—	16,963	—	—	21,623	—	—
Total average non-interest-earning assets	50,529	—	—	60,913	—	—	70,856	—	—
Total average assets	₩413,732	₩11,919	2.88%	₩460,281	₩13,735	2.98%	₩499,902	₩14,639	2.93%

	Year Ended December 31,								
	2017			2018			2019		
	Average Balance ⁽¹⁾	Interest Expense	Average Cost	Average Balance ⁽¹⁾	Interest Expense	Average Cost	Average Balance ⁽¹⁾	Interest Expense	Average Cost
	(in billions of Won, except percentages)								
Liabilities									
Deposits:									
Demand deposits	₩110,945	₩ 290	0.26%	₩117,267	₩ 347	0.30%	₩122,519	₩ 370	0.30%
Time deposits	127,478	2,010	1.58	141,021	2,637	1.87	155,762	3,018	1.94
Certificates of deposit	2,863	45	1.57	3,045	58	1.90	4,781	93	1.95
Deposits (total)	241,286	2,345	0.97	261,333	3,042	1.16	283,062	3,481	1.23
Debts ⁽⁸⁾	33,065	446	1.35	37,565	639	1.70	38,478	720	1.87
Debentures	39,767	880	2.22	48,147	1,149	2.39	52,574	1,241	2.36
Total average interest-bearing liabilities	₩314,118	₩3,672	1.17%	₩347,045	₩4,830	1.39%	₩374,114	₩5,442	1.45%
Non-interest bearing demand deposits	4,114	—	—	4,059	—	—	3,942	—	—
Derivative financial liabilities	2,422	—	—	2,932	—	—	3,334	—	—
Financial liabilities at fair value through profit or loss	12,674	—	—	14,280	—	—	16,861	—	—
Other non-interest-bearing liabilities	45,618	—	—	56,275	—	—	63,186	—	—
Total average non-interest bearing liabilities	64,828	—	—	77,546	—	—	87,323	—	—
Total average liabilities	378,946	3,672	0.95	424,591	4,830	1.14	461,437	5,442	1.18
Total equity	34,786	—	—	35,690	—	—	38,465	—	—
Total average liabilities and equity	₩413,732	₩3,672	0.87%	₩460,281	₩4,830	1.05%	₩499,902	₩5,442	1.09%

(1) Average balances are based on daily balances for our banking, credit card and investment and securities operations and monthly or quarterly balances for our other operations.

(2) We do not invest in any tax-exempt securities.

(3) For 2018 and 2019, includes deposits and loans at fair value through profit or loss. For information on interest income arising from such financial instruments, see Note 27 of the notes to our consolidated financial statements included elsewhere in this annual report.

(4) Comprises financial assets at fair value through other comprehensive income and at amortized cost (formerly referred to as available-for-sale and held-to-maturity financial assets, respectively). For 2018 and 2019, also includes loans at fair value through other comprehensive income. For information on interest income arising from such financial instruments, see Note 27 of the notes to our consolidated financial statements included elsewhere in this annual report. Information related to investment securities classified as financial assets at fair value through other comprehensive income (or available-for-sale financial assets) has been computed using amortized cost, and therefore does not give effect to changes in fair value that are reflected as a component of total equity.

(5) Includes other interest income.

(6) Interest income from credit cards includes principally cash advance fees of ₩216 billion, ₩223 billion and ₩217 billion and interest on credit card loans of ₩629 billion, ₩704 billion and ₩716 billion for the years ended December 31, 2017, 2018 and 2019, respectively, but does not include interchange fees.

(7) Consists primarily of loans from the overseas branches of our subsidiaries to affiliates of large Korean manufacturing companies for trade financing and working capital.

(8) Includes (i) lease-related interest expense pursuant to our adoption of IFRS 16 *Leases* (for 2019 only) and (ii) other interest expense.

The following table presents our net interest spread, net interest margin, and asset liability ratio for the past three years:

	Year Ended December 31,		
	2017	2018	2019
	(percentages)		
Net interest spread ⁽¹⁾	2.11%	2.05%	1.96%
Net interest margin ⁽²⁾	2.27	2.23	2.14
Average asset liability ratio ⁽³⁾	115.63	115.08	114.68

(1) The difference between the average rate of interest earned on interest-earning assets and the average rate of interest paid on interest-bearing liabilities.

- (2) The ratio of net interest income to average interest-earning assets, and reflects the application of the 2018 Accounting Policy Change.
(3) The ratio of average interest-earning assets to average interest-bearing liabilities.

Analysis of Changes in Net Interest Income—Volume and Rate Analysis

The following table provides an analysis of changes in interest income, interest expense and net interest income based on changes in volume and changes in rate for 2017 compared to 2018 and 2018 compared to 2019. Information is provided with respect to: (1) effects attributable to changes in volume (changes in volume multiplied by prior rate) and (2) effects attributable to changes in rate (changes in rate multiplied by prior volume). Changes attributable to the combined impact of changes in rate and volume have been allocated proportionately to the changes due to volume changes and changes due to rate changes.

	2018 vs. 2017 Increase/(Decrease) Due to Change in			2019 vs. 2018 Increase/(Decrease) Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
	(in billions of Won)					
Interest-earning assets						
Cash and interest earning deposits in other banks	₩ (20)	₩ 3	₩ (17)	₩ 32	₩ 10	₩ 42
Financial assets at fair value through profit or loss (debt securities) ⁽¹⁾	127	84	211	(20)	(24)	(44)
Financial investments (debt securities) ⁽²⁾	176	(10)	166	158	(95)	63
Loans:						
Corporate	395	114	509	222	95	317
Mortgage	140	171	311	219	20	239
Home equity	(3)	70	67	(78)	22	(56)
Other consumer	285	91	376	286	(97)	189
Credit cards	152	(24)	128	100	(35)	65
Foreign	25	40	65	100	(11)	89
Total interest income	<u>₩1,277</u>	<u>₩ 539</u>	<u>₩1,816</u>	<u>₩1,019</u>	<u>₩(115)</u>	<u>₩904</u>

	2018 vs. 2017 Increase/(Decrease) Due to Change in			2019 vs. 2018 Increase/(Decrease) Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
	(in billions of Won)					
Interest-bearing liabilities						
Deposits:						
Demand deposits	₩ 15	₩ 42	₩ 57	₩ 23	₩ 0	₩ 23
Time deposits	230	397	627	281	100	381
Certificates of deposit	3	10	13	33	2	35
Debts	66	127	193	16	65	81
Debentures	197	71	268	106	(14)	92
Total interest expense	<u>511</u>	<u>647</u>	<u>1,158</u>	<u>459</u>	<u>153</u>	<u>612</u>
Total net interest income	<u>₩ 766</u>	<u>₩(108)</u>	<u>₩ 658</u>	<u>₩ 560</u>	<u>₩(268)</u>	<u>₩292</u>

(1) For 2018 and 2019, includes deposits and loans at fair value through profit or loss. For information on interest income arising from such financial instruments, see Note 27 of the notes to our consolidated financial statements included elsewhere in this annual report.

(2) Comprises financial assets at fair value through other comprehensive income and at amortized cost (formerly referred to as available-for-sale and held-to-maturity financial assets, respectively). For 2018 and 2019, also includes loans at fair value through other comprehensive income. For information on interest income arising from such financial instruments, see Note 27 of the notes to our consolidated financial statements included elsewhere in this annual report. Information related to investment securities classified as financial assets at fair value through other comprehensive income (or available-for-sale financial assets) has been computed using amortized cost, and therefore does not give effect to changes in fair value that are reflected as a component of total equity.

Item 3.B. Capitalization and Indebtedness

Not applicable.

Item 3.C. Reasons for the Offer and Use of Proceeds

Not applicable.

Item 3.D. Risk Factors

Risks relating to our retail credit portfolio

Future changes in market conditions as well as other factors may lead to increases in delinquency levels of our retail loan portfolio.

In recent years, consumer debt has increased significantly in Korea. Our portfolio of retail loans, including mortgage and home equity loans, increased from ₩134,956 billion as of December 31, 2016 to ₩146,150 billion as of December 31, 2017, ₩158,807 billion as of December 31, 2018 and ₩166,307 billion as of December 31, 2019. As of December 31, 2019, our domestic retail loans represented 48.6% of our total lending. Within our retail loan portfolio, the outstanding balance of other consumer loans, which unlike mortgage or home equity loans are often unsecured and therefore tend to carry a higher credit risk, increased from ₩41,629 billion as of December 31, 2016 to ₩59,596 billion as of December 31, 2019; as a percentage of total outstanding retail loans, such balance increased from 30.8% as of December 31, 2016 to 35.8% as of December 31, 2019. The growth of our retail lending business, which generally offers higher margins than other lending activities, has contributed significantly to our interest income and profitability in recent years.

The growth of our retail loan portfolio, together with fluctuating economic conditions in Korea and globally in recent years, may lead to increases in delinquency levels and a deterioration in asset quality. The amount of our non-performing retail loans (defined as those loans that are past due by 90 days or more) decreased from ₩272 billion as of December 31, 2016 to ₩252 billion as of December 31, 2017, but increased to ₩304 billion as of December 31, 2018 and ₩376 billion as of December 31, 2019. Higher delinquencies in our retail loan portfolio in the future will require us to increase our loan loss provisions and charge-offs, which in turn will adversely affect our financial condition and results of operations.

Our large exposure to consumer debt means that we are exposed to changes in economic conditions affecting Korean consumers. Accordingly, economic difficulties in Korea that hurt consumers could result in a deterioration in the credit quality of our retail loan portfolio. For example, the severe impact of the ongoing outbreak of a global pandemic caused by a new strain of coronavirus, or COVID-19, on Korea's economy has disrupted the business, activities and operations of consumers, which in turn could result in a significant decrease in the number of financial transactions or the inability of our customers to meet existing payment or other obligations to us. See "Other risks relating to our business—The ongoing global pandemic of COVID-19 and any possible recurrence of other types of widespread infectious diseases may adversely affect our business, financial condition or results of operations." In addition, a rise in unemployment, an increase in interest rates or a decline in real estate prices in Korea could adversely affect the ability of consumers to make payments and increase the likelihood of potential defaults. See "Risks relating to Korea—Unfavorable financial and economic developments in Korea may have an adverse effect on us." Despite our efforts to minimize our risk as a result of such exposure, there is no assurance that we will be able to prevent significant credit quality deterioration in our retail loan portfolio.

In addition, we are exposed to changes in regulations and policies on retail lending by the Korean government, which may adopt measures to restrict retail lending or encourage financial institutions to provide financial support to certain types of retail borrowers. From the second half of 2016 to 2019, the Korean

government introduced various measures to tighten regulations on mortgage lending and housing subscription in response to the rapid growth in consumer debt and concerns over speculative investments in real estate in certain areas. A decrease in housing prices as a result of the implementation of such measures, together with the high level of consumer debt and rising interest rate levels, could result in declines in consumer spending and reduced economic growth, which may lead to increases in delinquency levels of our retail loan portfolio.

In light of adverse conditions in the Korean economy affecting consumers, in March 2009, the Financial Services Commission requested Korean banks, including us, to establish a “pre-workout program,” including a credit counseling and recovery service, for retail borrowers with outstanding short-term debt defaults. Under the pre-workout program, which has been in operation since April 2009, maturity extensions and/or interest reductions are provided for retail borrowers with total loans of ₩1.5 billion or less (consisting of no more than ₩500 million of unsecured loans and ₩1 billion of secured loans) who are in arrears on their payments for more than 30 days but less than 90 days, and who either have an income in excess of the minimum cost of living or are deemed by the Credit Counseling and Recovery Service, a public service organization that provides debt adjustment services to low-income families in Korea, to have the ability to repay their loans. In addition, in March 2015, in response to increasing levels of consumer debt and amid concerns over the debt-servicing capacity of retail borrowers if interest rates were to rise, the Korean government launched, and requested Korean banks to participate in, a mortgage loan refinancing program aimed at reducing the payment burden on and improving the asset quality of outstanding mortgage loans. Under such refinancing program, over 340,000 qualified retail borrowers converted their outstanding non-amortizing floating-rate mortgage loans from Korean commercial banks (including us) into amortizing fixed-rate mortgage loans with lower interest rates, amounting to an aggregate principal amount of ₩34 trillion for all commercial banks in 2015. In September 2019, the Korean government announced another similar mortgage loan refinancing program, the details of which will be finalized during the first half of 2020. Our participation in such refinancing program may lead to a decrease in our interest income on our outstanding mortgage loans, as well as in our overall net interest margin. Moreover, our participation in such initiatives led by the Korean government to provide financial support to retail borrowers may lead us to offer credit terms for such borrowers that we would not generally offer, which may have an adverse effect on our results of operations and financial condition.

Our credit card operations may generate losses in the future, which could hurt our financial condition and results of operations.

With respect to our credit card portfolio, our delinquency ratio (which represents the ratio of amounts that are overdue by 30 days or more to total outstanding balances) was 1.29% as of December 31, 2017, which increased to 1.31% as of December 31, 2018 but decreased to 1.25% as of December 31, 2019. In line with industry practice, we have restructured a portion of delinquent credit card account balances (defined as balances overdue by 30 days or more) as loans. As of December 31, 2019, these restructured loans outstanding amounted to ₩116 billion. Because these loans are not treated as being delinquent at the time of conversion or for a period of time thereafter, our delinquency ratios may not fully reflect all delinquent amounts relating to our outstanding loans. Including all restructured loans, outstanding balances overdue by 30 days or more accounted for 1.9% of our credit card receivables (including credit card loans) as of December 31, 2019. Delinquencies may increase in 2020 and in the future as a result of, among other things, adverse economic conditions in Korea, additional government regulations or the inability of Korean consumers to manage increased household debt.

Despite our continuing efforts to sustain and improve our credit card asset quality and performance, we may experience increased delinquencies or deterioration of the asset quality of our credit card portfolio, which would require us to increase our loan loss provisions and charge-offs and adversely affect our overall financial condition and results of operations.

Risks relating to our small- and medium-sized enterprise loan portfolio

We have significant exposure to small- and medium-sized enterprises, and any financial difficulties experienced by these customers may result in a deterioration of our asset quality and have an adverse impact on us.

One of our core businesses is lending to small- and medium-sized enterprises (as defined under “Item 4.B. Business Overview—Corporate Banking—Small- and Medium-sized Enterprise Banking”). Our loans to small- and medium-sized enterprises increased from ₩86,065 billion as of December 31, 2016 to ₩112,487 billion as of December 31, 2019. During that period, non-performing loans (defined as those loans that are past due by 90 days or more) to small- and medium-sized enterprises decreased from ₩302 billion as of December 31, 2016 to ₩204 billion as of December 31, 2019, and the non-performing loan ratio for such loans decreased from 0.4% as of December 31, 2016 to 0.2% as of December 31, 2019. However, our non-performing loans and non-performing loan ratio may increase in 2020. According to data compiled by the Financial Supervisory Service, the delinquency ratio for Won-currency loans by Korean commercial banks to small- and medium-sized enterprises was 0.4% as of December 31, 2019. The delinquency ratio for Won-currency loans to small- and medium-sized enterprise is calculated as the ratio of (1) the outstanding balance of such loans in respect of which either principal or interest payments are overdue by one month or more to (2) the aggregate outstanding balance of such loans. Our delinquency ratio for such Won currency loans decreased from 0.4% as of December 31, 2016 to 0.2% as of December 31, 2019. However, our delinquency ratio for such Won currency loans may increase in 2020.

The Korean government has historically introduced policies and initiatives intended to encourage Korean banks to provide financial support to small- and medium-sized enterprise borrowers. For example, the Korean government requested Korean banks, including us, to establish a “fast track” program to provide liquidity assistance to small- and medium-sized enterprises on an expedited basis. Under the “fast track” program we established, we provide liquidity assistance to qualified small- and medium-sized enterprise borrowers applying for such assistance, in the form of new loans or maturity extensions or interest rate adjustments with respect to existing loans, after expedited credit review and approval by us. The overall prospects for the Korean economy in 2020 and beyond remain uncertain, and the Korean government may extend or renew existing or past policies and initiatives or introduce new policies or initiatives to encourage Korean banks to provide financial support to small- and medium-sized enterprises. In particular, the ongoing global outbreak of the COVID-19 pandemic affecting many countries worldwide, including Korea, has prompted the Korean government in recent months to implement various emergency aid initiatives involving Korean banks, including Kookmin Bank, to provide liquidity assistance to small- and medium-sized enterprise borrowers. Such initiatives include the provision of new loans to borrowers with low credit ratings, extension of maturity dates for existing loans and suspension of interest payment obligations for an extended period of time. Our participation in such government-led initiatives may lead us to extend credit to small- and medium-sized enterprise borrowers that we would not otherwise extend, or offer terms for such credit that we would not otherwise offer, in the absence of such initiatives. Furthermore, there is no guarantee that the financial condition and liquidity position of our small- and medium-sized enterprise borrowers benefiting from such initiatives will improve sufficiently for them to service their debt on a timely basis, or at all. Accordingly, increases in our exposure to small- and medium-sized enterprise borrowers resulting from such government-led initiatives may have a material adverse effect on our financial condition and results of operations.

A substantial part of our small- and medium-sized enterprise lending comprises loans to “small office/home office” customers, or SOHOs. SOHOs, which we currently define to include sole proprietorships and individual business interests, are usually dependent on a limited number of suppliers or customers. SOHOs tend to be affected to a greater extent than larger corporate borrowers by fluctuations in the Korean economy. In addition, SOHOs often maintain less sophisticated financial records than other corporate borrowers. Although we continue to make efforts to improve our internally developed credit rating systems to rate potential borrowers, particularly with respect to SOHOs, and intend to manage our exposure to these borrowers closely in order to prevent any deterioration in the asset quality of our loans to this segment, we may not be able to do so as intended.

In addition, many small- and medium-sized enterprises have close business relationships with the largest Korean commercial conglomerates, known as “*chaebols*”, primarily as suppliers. Any difficulties encountered by those *chaebols* would likely hurt the liquidity and financial condition of related small- and medium-sized enterprises, including those to which we have exposure, also resulting in an impairment of their ability to repay loans.

In recent years, we have taken measures which sought to stem rising delinquencies in our loans to small- and medium-sized enterprises, including through strengthening the review of loan applications and closer monitoring of the post-loan performance of small- and medium-sized enterprise borrowers in industry sectors that are relatively more sensitive to downturns in the economy and have shown higher delinquency ratios, such as shipping, construction, lodging, retail and wholesale, restaurants and real estate. Despite such efforts, however, there is no assurance that delinquency levels for our loans to small- and medium-sized enterprises will not rise in the future. In particular, financial difficulties experienced by small- and medium-sized enterprises as a result of, among other things, adverse economic conditions in Korea and globally, could have an adverse impact on the ability of small- and medium-sized enterprises to make payments on our loans. For example, the ongoing global outbreak of the COVID-19 pandemic has had a significant adverse impact on the Korean and global economy, which in turn could subject small- and medium-sized enterprises to disruptions in supply chains, a decline in sales and/or deterioration in financial conditions. In addition, aggressive marketing and competition among banks to lend to this segment, may lead to a deterioration in the asset quality of our loans to this segment in the future. Any such deterioration would result in increased charge-offs and higher provisioning and reduced interest and fee income from this segment, which would have an adverse impact on our financial condition and results of operations.

We have exposure to Korean construction, shipbuilding and shipping companies, and financial difficulties of these companies may have an adverse impact on us.

As of December 31, 2019, we had loans outstanding to construction, shipbuilding and shipping companies (many of which are small- and medium-sized enterprises) in the amount of ₩3,610 billion, ₩523 billion and ₩228 billion, or 1.06%, 0.15% and 0.07% of our total loans, respectively. We also have other exposures to Korean construction, shipbuilding and shipping companies, including in the form of guarantees extended on behalf of such companies (which included confirmed guarantees of ₩471 billion for construction companies, ₩983 billion for shipbuilding companies and less than ₩1 billion for shipping companies as of December 31, 2019) and debt and equity securities of such companies held by us. In the case of construction companies, such exposures include guarantees provided to us by general contractors with respect to financing extended by us for residential and commercial real estate development projects. In the case of shipbuilding companies, such exposures include refund guarantees extended by us on behalf of shipbuilding companies to cover their obligation to return a portion of the ship order contract amount to customers in the event of performance delays or defaults under shipbuilding contracts.

Although the construction industry in Korea has shown signs of recovery since 2015, excessive investment in residential property development projects, the recent strengthening of mortgage lending regulations by the Korean government, stagnation of real property prices and reduced demand for residential property in areas outside of Seoul are expected to continue to negatively impact the construction industry. The shipbuilding industry in Korea has experienced a severe downturn in recent years reflecting a significant decrease in ship orders, primarily due to oversupply. Although ship orders have started to increase again, the shipbuilding industry has yet to recover fully. In the case of shipping companies in Korea, reduced shipping rates and high chartering costs, together with the slowdown in global trade, have contributed to the deterioration of their financial condition, requiring some of them to file for bankruptcy or pursue voluntary restructuring of their debt.

In response to the deteriorating financial condition and liquidity position of borrowers in the construction, shipbuilding and shipping industries, which were disproportionately impacted by adverse economic developments in Korea and globally, the Korean government implemented a program in 2009 to promote

expedited restructuring of such borrowers by their Korean creditor financial institutions, under the supervision of major commercial banks. In accordance with such program, 24 construction companies and five shipbuilding companies became subject to workout in 2009, following review by their creditor financial institutions (including us) and the Korean government. Each year since 2009, the Financial Services Commission and the Financial Supervisory Service have announced the results of subsequent credit risk evaluations conducted by creditor financial institutions (including us) of large corporations in Korea with outstanding credit exposures of ₩50 billion or more and small- and medium-sized enterprises in Korea with outstanding credit exposures of less than ₩50 billion, pursuant to which a number of companies were selected by such financial institutions for restructuring in the form of workout, liquidation or court receivership. However, there is no assurance that these measures will be successful in stabilizing the Korean construction, shipbuilding and shipping industries.

The allowances that we have established against our credit exposures to Korean construction, shipbuilding and shipping companies may not be sufficient to cover all future losses arising from these and other exposures. If the credit quality of our exposures to such companies declines further, we may incur substantial additional provisions (including in connection with restructurings of such companies) and charge-offs, which could adversely impact our results of operations and financial condition. See “—Risks relating to our large corporate loan portfolio—We have exposure to companies that are currently or may in the future be put in restructuring, and we may suffer losses as a result of additional loan loss provisions required and/or the adoption of restructuring plans with which we do not agree.” Furthermore, although a portion of our credit exposures to construction, shipbuilding and shipping companies are secured by collateral, such collateral may not be sufficient to cover uncollectible amounts in respect of such credit exposures. See “—Other risks relating to our business—A decline in the value of the collateral securing our loans and our inability to realize full collateral value may adversely affect our credit portfolio.”

Risks relating to our financial holding company structure and strategy

We may not succeed in implementing our strategy to take advantage of, or fail to realize the anticipated benefits of, our financial holding company structure.

One of our principal strategies is to take advantage of our financial holding company structure to become a comprehensive financial services provider capable of offering a full range of products and services to our large existing base of retail and corporate banking customers. The continued implementation of these plans may require additional investments of capital, infrastructure, human resources and management attention. This strategy entails certain risks, including the possibility that we may face significant competition from other financial holding companies and more specialized financial institutions in particular segments. If our strategy does not succeed, we may incur losses on our investments and our results of operations and financial condition may suffer.

Furthermore, our success under a financial holding company structure depends on our ability to realize the anticipated synergies, growth opportunities and cost savings from coordinating the businesses of our various subsidiaries. Although we have been integrating certain aspects of our subsidiaries’ operations into our financial holding company structure, our subsidiaries will generally continue to operate as independent entities with separate management and staff and our ability to direct our subsidiaries’ day-to-day operations may be limited. Some of our major acquisitions include the following:

- In March 2014, we acquired 52.02% of the outstanding shares of KB Capital Co., Ltd. (formerly named Woori Financial Co., Ltd.), a publicly listed Korean consumer finance company, from Woori Finance Holdings Co., Ltd. for ₩280 billion. We conducted a tender offer in May 2017, through which we acquired 5,949,300 shares of KB Capital at ₩27,500 per share, increasing our shareholding in KB Capital to 79.70%. We subsequently acquired the remaining outstanding shares of KB Capital in exchange for 2,269,057 shares of common stock of our company through a comprehensive stock swap effected in July 2017, as a result of which KB Capital became a wholly-owned subsidiary.

- In June 2015, we acquired 19.47% of the outstanding shares of KB Insurance Co., Ltd. (formerly named LIG Insurance Co., Ltd.), a publicly listed Korean non-life insurance company, from a group of individual shareholders for ₩651 billion. In November 2015, we increased our shareholding in KB Insurance to 33.29% by acquiring its treasury shares for ₩231 billion, and in December 2016, we further increased our shareholding in KB Insurance to 39.81% by purchasing new shares of KB Insurance for ₩171 billion in a rights offering. Through a tender offer conducted in May 2017, we acquired 36,237,649 shares of KB Insurance at ₩33,000 per share, increasing our shareholding to 94.30%. We subsequently effected a comprehensive stock swap in July 2017 to acquire the remaining outstanding shares of KB Insurance in exchange for 2,170,943 shares of common stock of our company, as a result of which KB Insurance became a wholly-owned subsidiary.
- In May 2016, we acquired 22.56% of the outstanding shares of Hyundai Securities Co., Ltd., a publicly listed Korean securities firm, from Hyundai Merchant Marine Co., Ltd. and other shareholders for ₩1,242 billion, and further increased our shareholding in Hyundai Securities to 29.62% in June 2016 by acquiring treasury shares of Hyundai Securities for ₩107 billion. In October 2016, we effected a comprehensive stock swap of the outstanding shares of Hyundai Securities for 31,759,844 newly issued shares of common stock of our company, as a result of which Hyundai Securities became a wholly-owned subsidiary. Following such transaction, we merged an existing subsidiary, KB Investment & Securities, with and into Hyundai Securities in December 2016 and changed the name of the surviving entity to KB Securities Co., Ltd.
- Most recently, in April 2020, we entered into a share purchase agreement to acquire all of the outstanding shares of The Prudential Life Insurance Company of Korea, Ltd., or Prudential Life Insurance, a provider of life insurance services in Korea, from Prudential Financial, Inc. for ₩2,265 billion, which amount is subject to change pending closing. The completion of such acquisition is subject to regulatory approvals and other closing conditions.

See “Item 5.A. Operating Results—Overview—Acquisitions.”

We may continue to increase our equity interest in our subsidiaries or investees and may also consider acquiring or merging with other financial institutions to achieve more balanced growth and further diversify our revenue base. For example, as part of our continued efforts to expand our businesses abroad, in particular in Southeast Asia, we acquired a 70% stake in PRASAC Microfinance Institution Limited, a provider of microfinance and deposit-taking services in Cambodia, through Kookmin Bank, in April 2020. We are also currently in the process of acquiring a substantial stake in providers of financing services in Indonesia through our subsidiaries. The integration of our new subsidiaries’ or investees’ separate businesses and operations, as well as those of any companies we may acquire or merge with in the future, under our financial holding company structure could require a significant amount of time, financial resources and management attention. Moreover, that process could disrupt our operations (including our risk management operations) or information technology systems, reduce employee morale, produce unintended inconsistencies in our standards, controls, procedures or policies, and affect our relationships with customers and our ability to retain key personnel. The realization of the anticipated benefits of our financial holding company structure and any mergers or acquisitions we decide to pursue may be blocked, delayed or reduced as a result of many factors, some of which may be outside our control. These factors include:

- difficulties in integrating the diverse activities and operations of our subsidiaries or investees or any companies we may merge with or acquire, including risk management operations and information technology systems, personnel, policies and procedures;
- difficulties in reorganizing or reducing overlapping personnel, branches, networks and administrative functions;
- restrictions under the Financial Holding Company Act and other regulations on transactions between a financial holding company and, or among, its subsidiaries;

- unforeseen contingent risks, including lack of required capital resources, increased tax liabilities or restrictions in our overseas operations, relating to our financial holding company structure;
- unexpected business disruptions;
- failure to attract, develop and retain personnel with necessary expertise;
- loss of customers; and
- labor unrest.

Accordingly, we may not be able to realize the anticipated benefits of our financial holding company structure, and our business, results of operations and financial condition may suffer as a result.

We depend on limited forms of funding to fund our operations at the holding company level.

We are a financial holding company with no significant assets other than the shares of our subsidiaries. Our primary sources of funding and liquidity are dividends from our subsidiaries, direct borrowings and issuances of equity or debt securities at the holding company level. In addition, as a financial holding company, we are required to meet certain minimum financial ratios under Korean law, including with respect to liquidity, leverage and capital adequacy. Our ability to meet our obligations to our direct creditors and employees and our other liquidity needs and regulatory requirements at the holding company level depends on timely and adequate distributions from our subsidiaries and our ability to sell our securities or obtain credit from our lenders.

The ability of our subsidiaries to pay dividends to us depends on their financial condition and operating results. In the future, our subsidiaries may enter into agreements, such as credit agreements with lenders or indentures relating to high-yield or subordinated debt instruments, that impose restrictions on their ability to make distributions to us, and the terms of future obligations and the operation of Korean law could prevent our subsidiaries from making sufficient distributions to us to allow us to make payments on our outstanding obligations. See “—As a financial holding company, we depend on receiving dividends from our subsidiaries to pay dividends on our common stock.” Any delay in receipt of or shortfall in payments to us from our subsidiaries could result in our inability to meet our liquidity needs and regulatory requirements, including minimum liquidity and capital adequacy ratios, and may disrupt our operations at the holding company level.

In addition, creditors of our subsidiaries will generally have claims that are prior to any claims of our creditors with respect to their assets. Furthermore, our inability to sell our securities or obtain funds from our lenders on favorable terms, or at all, could also result in our inability to meet our liquidity needs and regulatory requirements and may disrupt our operations at the holding company level.

As a financial holding company, we depend on receiving dividends from our subsidiaries to pay dividends on our common stock.

Since our principal assets at the holding company level are the shares of our subsidiaries, our ability to pay dividends on our common stock largely depends on dividend payments from those subsidiaries. Those dividend payments are subject to the Korean Commercial Code, the Bank Act and regulatory limitations, generally based on capital levels and retained earnings, imposed by the various regulatory agencies with authority over those entities. For example:

- under the Korean Commercial Code, dividends may only be paid out of distributable income, an amount which is calculated by subtracting the aggregate amount of a company’s paid-in capital and certain mandatory legal reserves as well as certain unrealized profits from its net assets, in each case as of the end of the prior fiscal period;
- under the Bank Act, a bank also must credit at least 10% of its net profit to a legal reserve each time it pays dividends on distributable income until that reserve equals the amount of its total paid-in capital; and

- under the Bank Act and the requirements of the Financial Services Commission, if a bank fails to meet its required capital adequacy ratio or otherwise becomes subject to management improvement measures imposed by the Financial Services Commission, then the Financial Services Commission may restrict the declaration and payment of dividends by that bank.

Our subsidiaries may not continue to meet the applicable legal and regulatory requirements for the payment of dividends in the future. If they fail to do so, they may stop paying or reduce the amount of the dividends they pay to us, which would have an adverse effect on our ability to pay dividends on our common stock.

Although increasing our fee income is an important part of our strategy, we may not be able to do so.

We have historically relied on interest income as our primary revenue source. While we have developed new sources of fee income as part of our business strategy, our ability to increase our fee income and thereby reduce our dependence on interest income will be affected by the extent to which our customers generally accept the concept of fee-based services. Historically, customers in Korea have generally been reluctant to pay fees in return for value-added financial services, and their continued reluctance to do so will adversely affect the implementation of our strategy to increase our fee income. Furthermore, the fees that we charge to customers are subject to regulation by Korean financial regulatory authorities, which may seek to implement regulations or measures that may also have an adverse impact on our ability to achieve this aspect of our strategy.

We may suffer customer attrition or our net interest margin may decrease as a result of our competition strategy.

We have been pursuing, and intend to continue to pursue, a strategy of maintaining or enhancing our margins where possible and avoid, to the extent possible, entering into price competition. In order to execute this strategy, we will need to maintain relatively low interest rates on our deposit products while charging relatively higher rates on loans. If other banks and financial institutions adopt a strategy of expanding market share through interest rate competition, we may suffer customer attrition due to rate sensitivity. In addition, we may in the future decide to compete to a greater extent based on interest rates, which could lead to a decrease in our net interest margins. Any future decline in our customer base or our net interest margins as a result of our future competition strategy could have an adverse effect on our results of operations and financial condition.

Risks relating to competition

Competition in the Korean financial industry is intense, and we may lose market share and experience declining margins as a result.

Competition in the Korean financial industry has been and is likely to remain intense. Some of the financial institutions that we compete with have longer operating histories as financial holding companies, greater financial resources or more specialized capabilities than us and our subsidiaries. In the retail and small- and medium-sized enterprise lending business, which has been our traditional core business, competition has increased significantly and is expected to increase further. Most Korean banks have been focusing on retail customers and small- and medium-sized enterprises in recent years, although they have begun to generally increase their exposure to large corporate borrowers. In addition, the profitability of our retail lending and credit card operations may decline as a result of growing market saturation in the retail lending and credit card segments, increased interest rate competition, pressure to lower the fee rates applicable to our credit cards (particularly merchant fee rates) and higher marketing expenses. Intense and increasing competition has made and continues to make it more difficult for us to secure retail, credit card and small- and medium-sized customers with the credit quality and on credit terms necessary to achieve our business objectives in a commercially acceptable manner.

Furthermore, the introduction of Internet-only banks in Korea is expected to increase competition in the Korean banking industry. Internet-only banks operate without branches and conduct most of their operations

through electronic means, which enables them to minimize costs and offer customers higher interest rates on deposits or lower lending rates. In April 2017, K Bank, the first Internet-only bank in Korea, commenced operations. Kakao Bank, another Internet-only bank, in which Kookmin Bank holds a 9.9% equity interest, commenced operations in July 2017. In December 2019, Toss Bank was granted a preliminary license by the Financial Services Commission to operate as an Internet-only bank and is expected to begin operations in July 2021 upon receiving final approval from the Financial Services Commission.

In the Korean insurance industry, there has been downward pressure in recent years on margins of insurance products as some of our competitors have sought to obtain or maintain market share by reducing margins and increasing marketing efforts. As the Korean non-life insurance and life insurance sectors continue to mature, they may experience a slowdown in growth as well as a stagnation in market penetration. Due to these and other factors, we believe that competition in the Korean insurance industry will likely remain intense in the future. Sustained or increased competition may lead to decreases in the market share and profitability of our non-life insurance and life insurance businesses.

In addition, we believe that regulatory reforms and the general modernization of business practices in Korea will lead to increased competition among financial institutions in Korea. In the second half of 2015, the Korean government implemented measures to facilitate bank account portability of retail customers by requiring commercial banks to establish systems that allow retail customers to easily switch their bank accounts at one commercial bank to another and automatically transfer the automatic payment settings of their former accounts to the new ones. Such measures have further intensified competition among financial institutions in Korea. Moreover, in March 2016, the Financial Services Commission introduced an individual savings account scheme in Korea, which enables individuals to efficiently manage a wide range of retail investment vehicles, including cash deposits, funds and securities investment products, from a single integrated account with one financial institution and offers tax benefits on investment returns. Since the scheme backed by the Korean government allows only one individual savings account per person, financial institutions have been competing to retain existing customers and attract new customers since the launch of the individual savings account scheme. Over 30 financial institutions, including banks, securities companies and insurance companies, have registered with the Financial Services Commission to sell their individual savings account products and competition among these financial institutions is expected to remain intense.

Moreover, a number of significant mergers and acquisitions in the financial industry have taken place in Korea in recent years, including Hana Financial Group's acquisition of a controlling interest in Korea Exchange Bank in 2012 and the subsequent merger of Hana Bank into Korea Exchange Bank in 2015. In addition, as part of the Korean government's plans to privatize Woori Finance Holdings Co., Ltd. (the former financial holding company of Woori Bank), certain subsidiaries of Woori Finance Holdings were sold to other financial institutions and Woori Finance Holdings itself was merged into Woori Bank in 2014, which established a new financial holding company, Woori Financial Group Inc., in January 2019. In the insurance sector, China's Anbang Insurance Group acquired controlling interests in Tong Yang Life Insurance Co., Ltd. and Allianz Life Insurance Korea Co., Ltd. in 2015 and 2016, respectively, while Mirae Asset Life Insurance Co., Ltd. acquired PCA Life Insurance Co., Ltd. in 2017. Furthermore, Orange Life Insurance, Ltd. (formerly known as ING Life Insurance Korea, Ltd.) became a wholly-owned subsidiary of Shinhan Financial Group following the acquisition of equity interests by Shinhan Financial Group in February 2019 and January 2020. In the securities sector, in 2016, Mirae Asset Securities Co., Ltd. acquired a 43% interest in KDB Daewoo Securities Co., Ltd., which subsequently merged with and into Mirae Asset Securities to create Mirae Asset Daewoo Securities Co., Ltd., the largest securities company in Korea in terms of capital.

We expect that consolidation in the Korean financial industry will continue. The financial institutions resulting from such consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for us. We also believe that foreign financial institutions, many of which have greater experience and resources than we do, may seek to compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions. Increased competition and

continuing consolidation may lead to decreased margins, resulting in a material adverse impact on our future profitability. Accordingly, our results of operations and financial condition may suffer as a result of increasing competition in the Korean financial industry.

Risks relating to our large corporate loan portfolio

We have exposure to chaebols, and, as a result, financial difficulties of chaebols may have an adverse impact on us.

Of our 20 largest corporate exposures (including loans, debt and equity securities and guarantees and acceptances) as of December 31, 2019, 12 were to companies that were members of the 30 largest highly-indebted business groups among *chaebols* in Korea designated as such by the Financial Supervisory Service based on their outstanding exposures. As of that date, the total amount of our exposures to 30 of such largest highly-indebted business groups among *chaebols* was ₩24,897 billion, or 5.2% of our total exposures. If the credit quality of our exposures to *chaebols* declines as a result of financial difficulties they experience or for other reasons, we could require substantial additional loan loss provisions, which would hurt our results of operations and financial condition. See “Item 4.B. Business Overview—Assets and Liabilities—Loan Portfolio—Exposure to Chaebols.”

We cannot assure you that the allowances we have established against these exposures will be sufficient to cover all future losses arising from these exposures. In addition, with respect to those companies that are in or in the future enter into workout or liquidation proceedings, we may not be able to make any recoveries against such companies. We may, therefore, experience future losses with respect to those loans.

We have exposure to companies that are currently or may in the future be put in restructuring, and we may suffer losses as a result of additional loan loss provisions required and/or the adoption of restructuring plans with which we do not agree.

As of December 31, 2019, our loans and guarantees to companies that were in workout, restructuring or rehabilitation amounted to ₩401 billion or 0.1% of our total loans and guarantees, most of which was classified as impaired. As of the same date, our allowances for credit losses on these loans and guarantees amounted to ₩180 billion, or 44.9% of these loans and guarantees. These allowances may not be sufficient to cover all future losses arising from our exposure to these companies. Furthermore, we have other exposure to such companies, in the form of debt and equity securities of such companies held by us (including equity securities we acquired as a result of debt-to-equity conversions). Our exposures as of December 31, 2019 with respect to such securities of companies in workout, restructuring or rehabilitation amounted to less than ₩1 billion, or less than 0.01% of our total debt securities and equity securities, but may increase in the future. In addition, in the case of borrowers that are or become subject to workout or restructuring, we may be forced to restructure our credits pursuant to restructuring plans approved by other creditor financial institutions of the borrower, or to dispose of our credits to other creditors on unfavorable terms.

In particular, as of December 31, 2019, we had ₩330 billion of outstanding exposures, comprising ₩85 billion of loans, ₩30 billion of equity securities and ₩215 billion of guarantees (mainly in the form of refund guarantees relating to shipbuilding contracts), to Daewoo Shipbuilding & Marine Engineering Co., Ltd., or DSME, which has been pursuing a voluntary restructuring program. In April 2017, the creditors of DSME agreed on a plan to provide additional financial support to DSME in connection with its voluntary restructuring program, under which the Korea Development Bank and the Export-Import Bank of Korea would provide ₩2.9 trillion of new loans to DSME, on the condition that DSME’s other creditors and bondholders agree to a ₩2.9 trillion debt-to-equity swap. The financial support plan required the Korean commercial bank creditors of DSME (including us) to swap 80% of our outstanding unsecured loans into equity of DSME and extend the maturity of the remaining loans for a period of three years. The financial support plan also requires DSME’s creditors (including us) to provide additional refund guarantees in connection with future shipbuilding contracts

of DSME. The implementation of the financial support plan for DSME has required and may continue to require us to increase our loan loss provisions and recognize write-offs and impairment losses with respect to our exposures to DSME and may therefore have a material adverse impact on our results of operations and financial condition. Furthermore, there is no guarantee that the plan will be successful in ensuring the financial viability of DSME.

A large portion of our credit exposure is concentrated in a relatively small number of large corporate borrowers, which increases the risk of our corporate credit portfolio.

As of December 31, 2019, our loans and guarantees to our 20 largest borrowers totaled ₩11,995 billion and accounted for 3.4% of our total loans and guarantees. As of that date, our single largest corporate credit exposure was to Samsung Securities Co., Ltd., to which we had outstanding loans of ₩1,500 billion, as well as additional credit exposure of ₩26 billion in the form of debt securities. Any deterioration in the financial condition of Samsung Securities Co., Ltd. or our other large corporate borrowers, including those in industries particularly affected by the COVID-19 pandemic to which we have exposures such as the hotel, leisure and transportation industries, the retail and wholesale industries and the manufacturing industry, may require us to record substantial additional provisions and charge-offs and may have a material adverse impact on our results of operations and financial condition.

Risks relating to our insurance operations

Our profitability may be adversely affected if actual benefits and claims amounts on our in-force insurance policies exceed the amounts that we have reserved, or we increase the amount of reserves due to a change in our underlying assumptions.

We operate our insurance business through KB Insurance Co., Ltd., our non-life insurance subsidiary which became a consolidated subsidiary in May 2017, as well as KB Life Insurance Co., Ltd., our life insurance subsidiary. With respect to our insurance operations, we establish and carry, as a liability, policy reserves based on the greater of statutory reserves and actuarial estimates of how much we will need to pay for future benefits and claims on our in-force non-life insurance and life insurance policies. The profitability of our insurance operations depends significantly upon the extent to which our actual claims results are consistent with the assumptions used in setting the prices for our insurance products and establishing the liabilities in our financial statements for our obligations for future insurance policy benefits and claims. We establish the liabilities for obligations for future insurance policy benefits and claims based on the expected payout of benefits, calculated through the use of assumptions for investment returns, mortality, morbidity, expenses and persistency, as well as certain macroeconomic factors such as inflation. We also use methods to analyze loss trends with respect to certain risk assumptions relating to natural disasters. These assumptions are based on our previous experience and published data from third party industry sources, as well as judgments made by our management. These assumptions and estimates may deviate from our actual experience due to various factors that are beyond our control, including as a result of unexpected changes in the scope of coverage by the Korean national health insurance program and advancements in health care that result in increased life expectancy and early detection of diseases, as well as re-interpretations of our insurance policy terms by Korean regulators or courts. In addition, the occurrence of unexpected catastrophic events in Korea, including pandemics or natural or man-made disasters, may result in claims that significantly exceed our expectations. As a result, we cannot determine with precision the ultimate amounts that we will pay for, or the timing of payment of, actual benefits and claims or whether the assets supporting the insurance policy liabilities will grow to the level we assume prior to payment of benefits or claims. These amounts may vary from the estimated amounts, particularly when those payments may not occur until well into the future.

We evaluate the adequacy of our insurance policy liabilities periodically based on changes in the assumptions used to determine our best estimates of claims, expenses, persistency rates and interest rates, as well as based on our actual policy benefits and claims results. To the extent that trends in actual claims results are less favorable than our underlying assumptions used in establishing these liabilities, and our total insurance policy liabilities are considered to be inadequate to meet our future contractual obligations as and when they arise, we

could be required to increase our liabilities. We record increases in our insurance policy liabilities as expenses in the period in which the liabilities are established or re-evaluated. If actual benefits and claims amounts exceed the amounts that we have reserved, or we increase the amount of insurance policy liabilities due to a change in our underlying assumptions, it could have a material adverse effect on our results of operations and financial condition.

Our insurance subsidiaries may be required to raise additional capital or reduce their growth or business scale if their risk-based capital adequacy ratio deteriorates or the applicable capital requirements change in the future.

Pursuant to the risk-based capital adequacy requirements implemented by the Financial Services Commission, insurance companies in Korea are required to maintain a statutory ratio of available regulatory capital to risk-weighted assets of not less than 100% on a consolidated basis. Furthermore, the Financial Supervisory Service had previously recommended that insurance companies maintain a risk-based capital adequacy ratio of not less than 150%, and its former administrative guidelines had required insurance companies failing to maintain such recommended 150% ratio to submit a capital increase plan. Although the Financial Supervisory Service has since withdrawn such administrative guidelines, we believe that a risk-based capital adequacy ratio of not less than 150% is still considered standard in the Korean insurance industry. Risk-based capital adequacy requirements require insurance companies to hold adequate capital to cover their exposures to interest rate risk, market risk, credit risk and operational risk as well as insurance risk by reflecting such risks in their calculation of risk-weighted assets. As of December 31, 2019, KB Insurance had a risk-based capital adequacy ratio of 188.46%, while KB Life Insurance had a risk-based capital adequacy ratio of 214.43%.

The Financial Supervisory Service has announced that it plans to introduce a new regulatory solvency regime for insurance companies by 2022 based on the International Capital Standard developed by the International Association of Insurance Supervisors, which would be similar in substance to the Solvency II Directive of the European Union. The Solvency II Directive, which has been in effect in the European Union since January 1, 2016, is a comprehensive program of regulatory requirements for insurance companies, covering authorization, corporate governance, supervisory reporting, public disclosure and risk assessment and management, as well as solvency. Under the Financial Supervisory Service's planned new solvency regime in Korea, among other things, insurance contract liabilities are expected to be measured based on market value, rather than book value, which would require a number of insurance companies in Korea with a large portfolio of high guaranteed rate of return products to obtain additional capital to meet their capital adequacy requirements. The Financial Supervisory Service has also announced its plans to implement a series of incremental changes to the calculation methodology for the risk-based capital adequacy ratio of insurance companies, as interim measures. Such changes implemented in 2017 included increasing the maximum statutory duration of insurance liabilities recognized for purposes of such calculation, as well as reducing the coefficient applied in calculating interest rate risk and adjusting the methods used to assess the risk of guaranteed benefits of variable insurance policies. See "Item 4.B. Business Overview—Supervision and Regulation—Principal Regulations Applicable to Insurance Companies—Capital Adequacy."

The details of the new solvency regime in Korea have not yet been finalized and may be further amended in the future. Accordingly, there is no guarantee that our insurance subsidiaries will not be required to raise additional capital to sustain their risk-based capital adequacy ratio above the required level in connection with the future implementation of the new solvency regime. Any material deterioration in the risk-based capital adequacy ratio of our insurance subsidiaries, as a result of the implementation of the new solvency regime or otherwise, could change their customers' or business counterparties' perception of their financial health, which in turn could adversely affect their business and profitability. Furthermore, if they grow rapidly or if their asset quality deteriorates in the future, our insurance subsidiaries may be required to raise additional capital, which we may need to provide in whole or in part, to meet their capital adequacy requirements. If we or our insurance subsidiaries are not able to raise any required additional capital, we may be forced to reduce the growth or scale of our insurance operations.

Changes in accounting standards for insurance contracts could adversely impact our reported results of operations and financial condition.

In response to a lack of comparability in the global insurance industry stemming from variations in accounting policies being applied, the IASB issued IFRS 17 (previously referred to as IFRS 4 Phase II), a new IFRS accounting standard for insurance contracts, in May 2017 with an effective date of January 1, 2021, which was subsequently deferred to January 1, 2022 and again to January 1, 2023. Compliance with such revised accounting standards could significantly affect the way in which we and other operators of insurance businesses in Korea account for insurance policies, annuity contracts and financial instruments and how our financial statements are presented.

IFRS 17 will introduce a fundamentally different approach to current accounting policies in terms of both liability measurement and profit recognition. Under IFRS 17, insurance contract liabilities will no longer be calculated based on historical or past assumptions but based on the present value of future insurance cash flows using a discount rate reflecting current interest rates and the characteristics of the insurance contracts, with a risk adjustment and deferral of up-front profits. Among other effects, this may result in an increase in the level of the liabilities of our insurance subsidiaries, which would lead to a decrease in the balance of their available capital, which in turn may lower their risk-based capital adequacy ratio, depending on the solvency regime applicable at the time. In addition, under IFRS 17, certain parts of premium income from insurance contracts will be allocated over the coverage period in proportion to the value of expected coverage and other services that the insurer will provide over such period, rather than recognized at the time of receipt of premium payments, and the investment component of an insurance contract (which refers to amounts to be repaid to policyholders even if the insured event does not occur) will be disaggregated and excluded from premium income. Such changes to revenue recognition methodology will likely change the presentation of our reported revenue from our insurance operations in our financial statements. The IASB, in order to ease implementation, has proposed certain amendments to IFRS 17 in June 2019 and is expected to finalize such amendments by mid-2020.

Given the complexity of IFRS 17 and the significant amount of time and resources that will be required to adopt IFRS 17 accounting, we have established and are in the process of executing an implementation plan, including investments in information technology systems and processes, in order to enhance our financial analysis and impact assessment with respect to our insurance operations. We are also taking other measures to reduce the amount of our statutorily required capital under IFRS 17, including developing new products with improved capital efficiency and strengthening our asset-liability management and our monitoring of interest rate risk. Potential challenges that we may face in terms of implementation of IFRS 17 include:

- interpretation of the requirements and potential operational difficulties when applying such requirements;
- data collection, storage and analysis;
- integration of existing systems and processes with new actuarial systems;
- increased finance, actuarial and risk management coordination;
- implementation of new business strategies in preparation for IFRS 17, including adjusting the duration of interest-earning assets and interest-bearing liabilities and our asset-liability management policies within our insurance operations;
- impact of the transition to a new Korean regulatory solvency regime, which is expected to be implemented around the time of the effective date of IFRS 17; and
- changes to other aspects of our insurance business, such as product design, remuneration policies and business planning.

Accordingly, the implementation of IFRS 17, as well as any other new or revised insurance accounting standards we are required to adopt in the future, could result in significant costs and may have a material adverse effect on our business and our reported results of operations and financial condition.

Other risks relating to our business

The ongoing global pandemic of COVID-19 and any possible recurrence of other types of widespread infectious diseases may adversely affect our business, financial condition or results of operations.

COVID-19, an infectious disease caused by severe acute respiratory syndrome coronavirus 2 that was first reported to have been transmitted to humans in late 2019 and has since spread globally over the course of 2020 to date, has materially and adversely affected the global economy and financial markets in recent months as well as disrupted our business operations. The World Health Organization declared the COVID-19 as a pandemic in March 2020.

Risks associated with a prolonged outbreak of COVID-19 or other types of widespread infectious diseases include:

- an increase in defaults on loan payments from our customers that are particularly affected by the ongoing outbreak of the COVID-19 pandemic (such as those in the hotel, leisure and transportation industries, the retail and wholesale industries and the manufacturing industry), who may not be able to meet payment obligations, which may lead to an increase in delinquency ratios and a deterioration in asset quality;
- depreciation of the Won against major foreign currencies, which in turn may increase our cost in servicing our foreign currency denominated debt and result in foreign exchange losses;
- disruption in the normal operations of our business resulting from contraction of infectious diseases by our employees, which may necessitate our employees to be quarantined and/or our offices to be temporarily shut down;
- disruption resulting from the necessity for social distancing, including, for example, temporary arrangements for employees to work remotely, which may lead to a reduction in labor productivity; and
- impairments in the fair value of our investments in companies that may be adversely affected by the pandemic.

While the exact nature and magnitude of the impact of the COVID-19 pandemic on our business, financial condition and results of operations are continuing to be assessed by our management, we believe that the COVID-19 pandemic has had a negative impact on our results of operations, in particular with respect to our investment and securities business segment, for the three months ended March 31, 2020.

It is not possible to predict the duration or the full magnitude of the overall harm that may result from COVID-19 in the long term. In the event that COVID-19 or other types of widespread infectious diseases cannot be effectively and timely contained, our business, financial condition and results of operations will likely suffer.

Unfavorable changes in the global financial markets could adversely affect our results of operations and financial condition.

The overall prospects for the Korean and global economy remain uncertain. In recent years and in 2020, the global financial markets have experienced significant volatility as a result of, among other things:

- the occurrence of severe health epidemics, such as the ongoing COVID-19 pandemic;
- a deterioration in economic and trade relations between the United States and its major trading partners, including China;
- increased uncertainties resulting from the United Kingdom's exit from the European Union;
- financial and social difficulties affecting many countries worldwide, in particular in Latin America and Europe;
- escalations in trade protectionism globally and geopolitical tensions in East Asia and the Middle East;
- the slowdown of economic growth in China and other major emerging market economies;

- interest rate fluctuations as well as changes in policy rates by the U.S. Federal Reserve and other central banks; and
- political and social instability in various countries in the Middle East, including Syria, Iraq and Yemen.

In light of the high level of interdependence of the global economy, unfavorable changes in the global financial markets, including as a result of any of the foregoing developments, could have a material adverse effect on the Korean economy and financial markets, and in turn on our business, financial condition and results of operations.

We are also exposed to adverse changes and volatility in the global and Korean financial markets as a result of our liabilities and assets denominated in foreign currencies and our holdings of trading and investment securities, including structured products. The value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely in recent years. A depreciation of the Won will increase our cost in Won of servicing our foreign currency-denominated debt, while continued exchange rate volatility may also result in foreign exchange losses for us. Furthermore, as a result of changes in global and Korean economic conditions, there has been volatility in securities prices, including the stock prices of Korean and foreign companies in which we hold an interest. Such volatility has resulted in and may lead to further trading and valuation losses on our trading and investment securities portfolio as well as impairment losses on our investments accounted for under the equity method.

Our business may be materially and adversely affected by legal claims and regulatory actions against us.

We are subject to the risk of legal claims and regulatory actions in the ordinary course of our business, which may expose us to substantial monetary damages and legal costs, injunctive relief, criminal and civil penalties, sanctions against our management and employees and regulatory restrictions on our operations, as well as significant reputational harm. See “Item 8A. Consolidated Statements and Other Financial Information—Legal Proceedings.”

We are unable to predict the outcome of the legal claims and regulatory actions in which we are involved, and the scope of the claims or actions or the total amount in dispute in such matters may increase. Furthermore, adverse final determinations, decisions or resolutions in such matters could encourage other parties to bring related claims and actions against us. Accordingly, the outcome of current and future legal claims and regulatory actions, particularly those for which it is difficult to assess the maximum potential exposure or the ultimate adverse impact with any degree of certainty, may materially and adversely impact our business, reputation, results of operations and financial condition.

Our risk management system may not be effective in mitigating risk and loss.

We seek to monitor and manage our risk exposure through a group-wide risk management platform, encompassing a multi-layered risk management governance structure, reporting and monitoring systems, early warning systems, credit risk management systems for our banking operations and other risk management infrastructure, using a variety of risk management strategies and techniques. See “Item 11. Quantitative and Qualitative Disclosures about Market Risk.” However, such risk management strategies and techniques employed by us and the judgments that accompany their application cannot anticipate the economic and financial outcome in all market environments, and many of our risk management strategies and techniques have a basis in historical market behavior that may limit the effectiveness of such strategies and techniques in times of significant market stress or other unforeseen circumstances. Furthermore, our risk management strategies may not be effective in a difficult or less liquid market environment, as other market participants may be attempting to use the same or similar strategies as us to deal with such market conditions. In such circumstances, it may be difficult for us to reduce our risk positions due to the activity of such other market participants.

Uncertainties regarding the possible discontinuation of the London Interbank Offered Rate, or LIBOR, or any other interest rate benchmark could have adverse consequences for market participants, including us.

In July 2017, the U.K. Financial Conduct Authority, or the FCA, which has regulatory authority with respect to LIBOR, announced that it does not intend to continue to encourage, or use its power to compel, panel banks to provide rate submissions for the determination of LIBOR beyond the end of 2021. It is possible that panel banks will continue to provide rate submissions, and that the ICE Benchmark Administration, the administrator of LIBOR, will continue to determine and announce LIBOR, on the current basis after 2021, if they are willing and able to do so. However, there is no guarantee that LIBOR will be determined and announced after 2021 on the current basis or at all.

Given the extensive use of LIBOR across financial markets, the transition away from LIBOR presents various risks and challenges to financial markets and institutions, including us, and in particular, Kookmin Bank, our banking subsidiary. As a commercial bank, Kookmin Bank uses various financial products that reference LIBOR, including, among others, commercial loans, deposits, debts and debentures, that mature after 2021. Kookmin Bank also enters into derivatives contracts in order to address the needs of its corporate clients to hedge their risk exposure as well as the need to hedge its own risk exposure that results from such client contracts. In February 2020, Kookmin Bank assembled a task force team in order to assess, identify, monitor and manage risks that may arise from the potential discontinuation of LIBOR.

If not sufficiently planned for, the discontinuation of LIBOR or any other interest rate benchmark could result in increased financial, operational, legal, reputational and/or compliance risks. For example, a significant challenge will be managing the impact of the LIBOR transition on the contractual mechanics of LIBOR-based financial instruments and contracts that mature after 2021. Certain of these instruments and contracts may not provide for alternative reference rates, and even if such instruments and contracts provide for alternative reference rates, such alternative reference rates are likely to differ from the prior benchmark rates and may require us to pay interest at higher rates on the related obligations, which could adversely impact our interest expense, results of operations and cash flows. While there are a number of international working groups focused on transition plans and the provision of fallback contract language that seek to minimize market disruption, replacement of LIBOR or any other benchmark with a new benchmark rate could adversely impact the value of and return on existing instruments and contracts. Moreover, replacement of LIBOR or other benchmark rates could result in market dislocations and have other adverse consequences for market participants, including the potential for increased costs, and litigation risks stemming from potential disputes with customers and counterparties regarding the interpretation and enforceability of fallback contract language in the LIBOR-based financial instruments and contracts.

We are generally subject to Korean corporate governance and disclosure standards, which may differ from those in other countries.

Companies in Korea, including us, are subject to corporate governance standards applicable to Korean public companies which may differ in some respects from standards applicable in other countries, including the United States. As a reporting company registered with the U.S. Securities and Exchange Commission and listed on the New York Stock Exchange, we are subject to certain corporate governance standards as mandated by the Sarbanes-Oxley Act of 2002. However, foreign private issuers, including us, are exempt from certain corporate governance requirements under the Sarbanes-Oxley Act or under the rules of the New York Stock Exchange. There may also be less publicly available information about Korean companies, such as us, than is regularly made available by public or non-public companies in other countries. Such differences in corporate governance standards and less public information could result in corporate governance practices or disclosures that are perceived as less than satisfactory by investors in certain countries.

A decline in the value of the collateral securing our loans and our inability to realize full collateral value may adversely affect our credit portfolio.

A substantial portion of our loans is secured by real estate, the values of which have fluctuated significantly in recent years. Although it is our general policy to lend up to 39% to 85% of the appraised value of collateral (except in areas of high speculation designated by the government where we generally limit our lending to between 10% to 60% of the appraised value of collateral) and to periodically re-appraise our collateral, a downturn in the real estate market in Korea may result in declines in the value of the collateral securing our mortgage and home equity loans. If collateral values decline in the future, they may not be sufficient to cover uncollectible amounts in respect of our secured loans. Any future declines in the value of the real estate or other collateral securing our loans, or our inability to obtain additional collateral in the event of such declines, could result in a deterioration in our asset quality and may require us to take additional loan loss provisions.

In Korea, foreclosure on collateral generally requires a written petition to a court. An application, when made, may be subject to delays and administrative requirements that may result in a decrease in the value realized with respect to such collateral. We cannot guarantee that we will be able to realize the full value on our collateral as a result of, among other factors, delays in foreclosure proceedings and defects in the perfection of our security interest in collateral. Our failure to recover the expected value of collateral could expose us to losses.

The secondary market for corporate bonds in Korea is not fully developed, and, as a result, we may not be able to realize the full book value of debt securities we hold at the time of any sale of such securities.

As of December 31, 2019, we held debt securities issued by Korean companies and financial institutions (other than those issued by the Bank of Korea, the Korea Development Bank, Korea Housing Finance Corporation, Industrial Bank of Korea, the Export-Import Bank of Korea, the Korea Deposit Insurance Corporation, Korea Land & Housing Corporation and the Korea SMEs and Startups Agency, which are government-owned or -controlled enterprises or financial institutions) with a total carrying amount of ₩41,910 billion in our trading and investment securities portfolio. The market value of these securities could decline significantly due to various factors, including future increases in interest rates or a deterioration in the financial and economic condition of any particular issuer or of Korea in general. Any of these factors individually or a combination of these factors would require us to write down the fair value of these debt securities, resulting in impairment losses. Because the secondary market for corporate bonds in Korea is not fully developed, the market value of many of these securities as reflected on our statements of financial position is determined by references to suggested prices posted by Korean rating agencies or the Korea Financial Investment Association. These valuations, however, may differ significantly from the actual value that we could realize in the event we elect to sell these securities. As a result, we may not be able to realize the full book value at the time of any such sale of these securities and thus may incur losses.

We may be required to make transfers from our general banking operations to cover shortfalls in our guaranteed trust accounts, which could have an adverse effect on our results of operations.

We manage a number of money trust accounts through Kookmin Bank, our banking subsidiary. Under Korean law, trust account assets of a bank are required to be segregated from the assets of that bank's general banking operations. Those assets are not available to satisfy the claims of a bank's depositors or other creditors of its general banking operations. For some of the trust accounts we manage, we have guaranteed either the principal amount of the investor's investment or the principal and a fixed rate of interest.

If, at any time, the income from our guaranteed trust accounts is not sufficient to pay any guaranteed amount, we will have to cover the shortfall first from the special reserves maintained in these trust accounts, then from our fees from such trust accounts and finally from funds transferred from our general banking operations. As of December 31, 2019, we had ₩114 billion of special reserves in respect of trust accounts for which we provided guarantees of principal. There was no transfer from general banking operations to cover deficiencies in guaranteed trust accounts in 2017, 2018 and 2019. However, we may be required to make transfers from our general banking operations to cover shortfalls, if any, in our guaranteed trust accounts in the future. Such transfers may adversely impact our results of operations.

Our operations have been, and will continue to be, subject to increasing and continually evolving cyber security and other technological risks.

With the proliferation of new technologies and the increasing use of the Internet and mobile devices to conduct financial transactions, our operations as a large financial institution have been, and will continue to be, subject to an increasing risk of cyber incidents relating to these activities, the nature of which is continually evolving. Our computer systems, software and networks are subject to cyber incidents, such as disruptions, delays or other difficulties from our information technology system, computer viruses or other malicious codes, loss or destruction of data (including confidential client information), unauthorized access, account takeover attempts and cyber attacks. A significant portion of our daily operations relies on our information technology systems, including customer service, billing, the secure processing, storage and transmission of confidential and other information as well as the timely monitoring of a large number of complex transactions. Although we have made substantial and continuous investments to build systems and defenses to address cyber security and other technological risks, there is no guarantee that such measures or any other measures can provide adequate security. In addition, because methods used to cause cyber attacks change frequently or, in some cases, are not recognized until launched, we may be unable to implement effective preventive measures or proactively address these methods. Furthermore, these cyber threats may arise from human error, accidental technological failure and third parties with whom we do business. Although we maintain insurance coverage that may cover certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses. If we were to be subject to a cyber incident, it could result in the disclosure of confidential client information, damage to our reputation with our customers and in the market, customer dissatisfaction, additional costs to us, regulatory penalties, exposure to litigation and other financial losses to both us and our customers, which could have an adverse effect on our business and results of operations.

Risks relating to liquidity and capital management

Our funding is highly dependent on short-term deposits, which dependence may adversely affect our operations.

We meet a significant amount of our funding requirements through short-term funding sources, which consist primarily of customer deposits. As of December 31, 2019, approximately 96.0% of our deposits had maturities of one year or less or were payable on demand. In the past, a substantial proportion of our customer deposits have been rolled over upon maturity. We cannot guarantee, however, that depositors will continue to roll over their deposits in the future. In the event that a substantial number of our short-term deposit customers withdraw their funds or fail to roll over their deposits as higher-yielding investment opportunities emerge, our liquidity position could be adversely affected. We may also be required to seek more expensive sources of short-term and long-term funding to finance our operations. See “Item 5.B. Liquidity and Capital Resources—Financial Condition—Liquidity.”

We may be required to raise additional capital if our capital adequacy ratio deteriorates or the applicable capital requirements change in the future, but we may not be able to do so on favorable terms or at all.

Under the capital adequacy requirements of the Financial Services Commission, as of December 31, 2019, both we and Kookmin Bank, our banking subsidiary, were required to maintain a total minimum common equity Tier I capital adequacy ratio of 8.0%, Tier I capital adequacy ratio of 9.5% and combined Tier I and Tier II capital adequacy ratio of 11.5%, on a consolidated basis (including applicable additional capital buffers and requirements as described below). As of December 31, 2019, our common equity Tier I capital, Tier I capital and combined Tier I and Tier II capital adequacy ratios were 13.58%, 13.86% and 14.48%, respectively, and Kookmin Bank’s common equity Tier I capital, Tier I capital and combined Tier I and Tier II capital adequacy ratios were 14.37%, 14.68% and 15.85%, respectively, all of which exceeded the minimum levels required by the Financial Services Commission. However, our capital base and capital adequacy ratios may deteriorate in the future if our results of operations or financial condition deteriorates for any reason, including as a result of a

deterioration in the asset quality of our retail loans (including credit card balances) and loans to small- and medium-sized enterprises, or if we are not able to deploy our funding into suitably low-risk assets.

The current capital adequacy requirements of the Financial Services Commission are derived from a new set of bank capital measures, referred to as Basel III, which the Basel Committee on Banking Supervision initially introduced in 2009 and began phasing in starting from 2013. Commencing in July 2013, the Financial Services Commission promulgated a series of amended regulations implementing Basel III, pursuant to which Korean banks and bank holding companies were required to maintain a minimum ratio of common equity Tier I capital (which principally includes equity capital, capital surplus and retained earnings) to risk-weighted assets of 3.5% and Tier I capital to risk-weighted assets of 4.5% from December 1, 2013, which minimum ratios were increased to 4.0% and 5.5%, respectively, from January 1, 2014 and increased further to 4.5% and 6.0%, respectively, from January 1, 2015. Such requirements are in addition to the pre-existing requirement for a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8.0%, which remains unchanged. The amended regulations also require an additional capital conservation buffer of 2.5% in 2019 and 2020, as well as a potential counter-cyclical capital buffer of up to 2.5%, which is determined on a quarterly basis by the Financial Services Commission. Furthermore, we and Kookmin Bank were each designated as a domestic systemically important bank holding company and a domestic systemically important bank, respectively, for 2019 by the Financial Services Commission and were subject to an additional capital requirement of 1.0% in 2019. In June 2019, we and Kookmin Bank were each again designated as a domestic systemically important bank holding company and a domestic systemically important bank, respectively, for 2020, which would again subject us to an additional capital requirement of 1.0% in 2020. The implementation of Basel III in Korea may have a significant effect on the capital requirements of Korean financial institutions, including us. See “Item 4.B. Business Overview—Supervision and Regulation—Principal Regulations Applicable to Financial Holding Companies—Capital Adequacy” and “—Principal Regulations Applicable to Banks—Capital Adequacy.”

We may be required to obtain additional capital in the future in order to remain in compliance with more stringent capital adequacy and other regulatory requirements. However, we may not be able to obtain additional capital on favorable terms, or at all. Our ability to obtain additional capital at any time may be constrained to the extent that banks or other financial institutions in Korea or from other countries are seeking to raise capital at the same time. To the extent that we fail to comply with applicable capital adequacy ratio or other regulatory requirements in the future, Korean regulatory authorities may impose penalties on us ranging from a warning to suspension or revocation of our banking license.

A considerable increase in interest rates could decrease the value of our debt securities portfolio and raise our funding costs while reducing loan demand and the repayment ability of our borrowers, which, as a result, could adversely affect us.

Interest rates in Korea have been subject to significant fluctuations in recent years. After the Bank of Korea reduced its policy rate to 1.50% in 2015 and again to 1.25% in June 2016 amid deflationary concerns and interest rate cuts by central banks around the world, it increased its policy rate to 1.50% in November 2017 and 1.75% in November 2018 in light of improved growth prospects in Korea and rising interest rate levels globally. However, the Bank of Korea again lowered its policy rate to 1.50% in July 2019 and to 1.25% in October 2019 in order to address the sluggishness of the global and domestic economy. Subsequently, in March 2020, the Bank of Korea further lowered its policy rate to 0.75% in response to deteriorating economic conditions resulting from the ongoing global outbreak of the COVID-19 pandemic. All else being equal, an increase in interest rates in the future could lead to a decline in the value of our portfolio of debt securities, which generally pay interest based on a fixed rate. A sustained increase in interest rates will also raise our funding costs, while reducing loan demand, especially among retail borrowers. Rising interest rates may therefore require us to re-balance our asset portfolio and our liabilities in order to minimize the risk of potential mismatches and maintain our profitability.

In addition, rising interest rate levels may adversely affect the Korean economy and the financial condition of our corporate and retail borrowers, including holders of our credit cards, which in turn may lead to a

deterioration in our credit portfolio. In particular, since most of our retail and corporate loans bear interest at rates that adjust periodically based on prevailing market rates, a sustained increase in interest rate levels will increase the interest costs of our retail and corporate borrowers and could adversely affect their ability to make payments on their outstanding loans.

Furthermore, in periods of increasing interest rates, the yields on the general account assets of our insurance subsidiaries may not be sufficient to fund the higher floating interest credit rates necessary to keep their interest-sensitive insurance products competitive. They may therefore have to accept a lower spread and thus lower profitability or face a decline in sales and greater attrition among their existing policyholders. In addition, in periods of increasing interest rates, the value of the debt securities and other general account assets of our insurance subsidiaries may decline, resulting in lower unrealized gains within other comprehensive income in their total equity, which in turn would lower their available capital and their risk-based capital adequacy ratio. Moreover, surrenders and withdrawals of insurance policies may increase as policyholders seek to buy products with perceived higher returns. This process may lead to a cash outflow from our insurance subsidiaries. Such cash outflows may require them to sell their investment assets at a time when the prices of those assets are lower because of the increase in market interest rates, which may result in investment losses.

Risks relating to government regulation and policy

Our income tax expenses may increase as a result of changes to Korean corporate income tax laws.

Pursuant to an amendment to the Corporate Income Tax Law of Korea which became effective in January 2018, the corporate income tax rate applicable to the portion of the tax base of companies that exceeds ₩300 billion has been raised from 24.2% to 27.5%, inclusive of local income surtax in each case. In addition, pursuant to an amendment to the Special Tax Treatment Control Law of Korea, or the STTCL, which became effective in January 2018, large corporations with net equity in excess of ₩50 billion, including us and certain of our subsidiaries, are subject to a 20% additional levy on the unused amount if a certain portion (i.e., 65% or 15%, depending on the taxation method) of their taxable income is not used for investments, wage increases or other certain expenditures as prescribed by the STTCL. Such changes in Korean income tax laws may result in an increase in our and our subsidiaries' income tax expenses, which, depending on the magnitude of such increase, may have a material adverse effect on our results of operations.

Strengthening of consumer protection laws applicable to financial institutions could adversely affect our operations.

As a financial service provider, we are subject to a variety of regulations in Korea that are designed to protect financial consumers. In recent years, in light of heightened public concern regarding privacy issues, the Korean government has placed greater emphasis on protection of personal information by financial institutions and has implemented a number of measures to enhance consumer protection, including considerably restricting a financial institution's ability to transfer or provide personal information to its affiliates or holding company. Under the Personal Information Protection Act, financial institutions, as personal information managers, may not collect, store, maintain, utilize or provide resident registration numbers of their customers, unless other laws or regulations specifically require or permit the management of resident registration numbers. In addition, under the Use and Protection of Credit Information Act, a financial institution has a higher duty to protect all information that it collects from its customers and is required to treat such information as credit information. A financial institution's ability to transfer or provide the information to its affiliates or holding company is considerably restricted. Treble damages may be imposed on a financial institution for leakage of such information. Furthermore, under the Electronic Financial Transaction Act, a financial institution is primarily responsible for compensating its customers harmed by a cyber security breach affecting the financial institution even if the breach is not directly attributable to the financial institution.

Under the newly enacted Financial Consumer Protection Act, we, as a financial instrument distributor, will be subject to heightened investor protection measures, including stricter distribution guidelines, improved

financial dispute resolution procedures, increased liability for customer losses and newly imposed penalty surcharges starting in March 2021.

These and other measures that may be implemented by the Korean government to strengthen consumer protection laws applicable to financial institutions may limit our operational flexibility and cause us to incur significant additional compliance costs, as well as subject us to increased potential liability to our customers, which could adversely affect our business and performance.

The Korean government may promote lending and financial support by the Korean financial industry to certain types of borrowers as a matter of policy, which financial institutions, including us, may decide to follow.

Through its policies and recommendations, the Korean government has promoted and, as a matter of policy, may continue to attempt to promote lending by the Korean financial industry to particular types of borrowers. For example, the Korean government has in the past provided and may continue to provide policy loans, which encourage lending to particular types of borrowers. It has generally done this by identifying sectors of the economy it wishes to promote and making low interest funding available to financial institutions that may voluntarily choose to lend to these sectors. The government has in this manner provided policy loans intended to promote mortgage lending to low-income individuals and lending to small- and medium-sized enterprises. All loans or credits we choose to make pursuant to these policy loans would be subject to review in accordance with our credit approval procedures. However, the availability of policy loans may influence us to lend to certain sectors or in a manner in which we otherwise would not in the absence of such loans from the government.

In the past, the Korean government has also announced policies under which financial institutions in Korea are encouraged to provide financial support to particular sectors. For example, in light of the deteriorating financial condition and liquidity position of small- and medium-sized enterprises in Korea and adverse conditions in the Korean economy affecting such enterprises, the Korean government introduced measures intended to encourage Korean banks to provide financial support to small- and medium-sized enterprise and retail borrowers. See “—Risks relating to our small- and medium-sized enterprise loan portfolio—We have significant exposure to small- and medium-sized enterprises, and any financial difficulties experienced by these customers may result in a deterioration of our asset quality and have an adverse impact on us.” and “—Risks relating to our retail credit portfolio—Future changes in market conditions as well as other factors may lead to increases in delinquency levels of our retail loan portfolio.” The Korean government may in the future request financial institutions in Korea, including us, to make investments in or provide other forms of financial support to particular sectors of the Korean economy as a matter of policy, which financial institutions, including us, may decide to accept. We may incur costs or losses as a result of providing such financial support.

The Financial Services Commission may impose burdensome measures on us if it deems us or one of our subsidiaries to be financially unsound.

If the Financial Services Commission deems our financial condition or the financial condition of our subsidiaries to be unsound, or if we or our subsidiaries fail to meet applicable regulatory standards, such as minimum capital adequacy and liquidity ratios, the Financial Services Commission may order or recommend, among other things:

- capital increases or reductions;
- stock cancellations or consolidations;
- transfers of businesses;
- sale of assets;
- closures of subsidiaries or branch offices;

- mergers with other financial institutions; and
- suspensions of a part of our business operations.

If any of these measures is imposed on us by the Financial Services Commission, they could hurt our business, results of operations and financial condition. In addition, if the Financial Services Commission orders us to partially or completely reduce our capital, you may lose part or all of your investment.

Risks relating to Korea

Escalations in tensions with North Korea could have an adverse effect on us and the market value of our ADSs.

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In particular, there have been heightened security concerns in recent years stemming from North Korea's nuclear weapon and ballistic missile programs as well as its hostile military actions against Korea. Some of the significant incidents in recent years include the following:

- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted six rounds of nuclear tests since October 2006, including claimed detonations of hydrogen bombs, which are more powerful than plutonium bombs, and warheads that can be mounted on ballistic missiles. Over the years, North Korea has also conducted a series of ballistic missile tests, including missiles launched from submarines and intercontinental ballistic missiles that it claims can reach the United States mainland. In response, the Korean government has repeatedly condemned the provocations and flagrant violations of relevant United Nations Security Council resolutions. In February 2016, the government also closed the inter-Korea Gaesong Industrial Complex in response to North Korea's fourth nuclear test in January 2016. Internationally, the United Nations Security Council has passed a series of resolutions condemning North Korea's actions and significantly expanding the scope of sanctions applicable to North Korea, most recently in December 2017 in response to North Korea's intercontinental ballistic missile test in November 2017. Over the years, the United States and the European Union have also expanded their sanctions applicable to North Korea.
- In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Korean government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Korean government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

North Korea's economy also faces severe challenges, which may further aggravate social and political pressures within North Korea. Although bilateral summit meetings were held between Korea and North Korea in April, May and September 2018 and between North Korea and the United States in June 2018, February 2019 and June 2019, there can be no assurance that the level of tensions affecting the Korean peninsula will not escalate in the future. Any increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea or between the United States and North Korea break down or military hostilities occur, could have a material adverse effect on the Korean economy and on our business, financial condition and results of operations and the market value of our common stock and American depositary shares, or ADSs.

Unfavorable financial and economic developments in Korea may have an adverse effect on us.

We are incorporated in Korea, and substantially all of our operations are located in Korea. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea, and our performance and

successful fulfillment of our operational strategies are dependent to a large extent on the overall Korean economy. The economic indicators in Korea in recent years have shown mixed signs, and in early 2020, the overall Korean economy has shown signs of deterioration due to the debilitating effects of the ongoing global outbreak of the COVID-19 pandemic on the Korean economy as well as on the economies of Korea's major trading partners. See "Other risks relating to our business—The ongoing global pandemic of COVID-19 and any possible recurrence of other types of widespread infectious diseases may adversely affect our business, financial condition or results of operations." As a result, future growth of the Korean economy is subject to many factors beyond our control, including developments in the global economy.

In recent years and in 2020, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices and the increasing weakness of the global economy have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. See "Other risks relating to our business—Unfavorable changes in the global financial markets could adversely affect our results of operations and financial condition." The value of the Won relative to major foreign currencies has also fluctuated significantly and, as a result of deteriorating global and Korean economic conditions, there recently has been significant volatility in the stock prices of Korean companies. Further declines in the Korea Composite Stock Price Index, or the KOSPI, and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea, and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

Developments that could have an adverse impact on Korea's economy include:

- declines in consumer confidence and a slowdown in consumer spending in the Korean or global economy;
- the occurrence of severe health pandemics, such as the ongoing global outbreak of the COVID-19 pandemic, or other severe health epidemics in Korea or other parts of the world, such as the Middle East Respiratory Syndrome outbreak in Korea in 2015;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy, in particular the ongoing trade disputes with Japan;
- adverse conditions or developments in the economies of countries and regions that are important export markets for Korea, such as the United States, Europe, Japan and China, or in emerging market economies in Asia or elsewhere, including as a result of deteriorating economic and trade relations between the United States and China and increased uncertainties resulting from the United Kingdom's exit from the European Union;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, Euro or Japanese Yen exchange rates or revaluation of the Chinese Renminbi), interest rates, inflation rates or stock markets;
- increased sovereign default risks in select countries and the resulting adverse effects on the global financial markets;
- a continuing rise in the level of household debt and increasing delinquencies and credit defaults by retail and small- and medium-sized enterprise borrowers in Korea;
- a deterioration in the financial condition or performance of small- and medium-sized enterprises and other companies in Korea due to the Korean government's policies to increase minimum wages and limit working hours of employees;
- investigations of large Korean business groups and their senior management for possible misconduct;

- social and labor unrest;
- substantial decreases in the market prices of Korean real estate;
- a decrease in tax revenues or a substantial increase in the Korean government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, would lead to an increased government budget deficit;
- financial problems or lack of progress in the restructuring of *chaebols*, other large troubled companies, their suppliers or the financial sector;
- loss of investor confidence arising from corporate accounting irregularities or corporate governance issues at certain *chaebols*;
- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;
- the economic impact of any pending or future free trade agreements or of any changes to existing free trade agreements;
- geo-political uncertainty and the risk of further attacks by terrorist groups around the world;
- natural or man-made disasters that have a significant adverse economic or other impact on Korea or its major trading partners;
- political uncertainty or increasing strife among or within political parties in Korea;
- hostilities or political or social tensions involving oil-producing countries in the Middle East (including a potential escalation of hostilities between the United States and Iran) and Northern Africa and any material disruption in the supply of oil or sudden increase in the price of oil;
- increased reliance on exports to service foreign currency debts, which could cause friction with Korea's trading partners;
- political or social tensions involving Russia and any resulting adverse effects on the supply of oil or the global financial markets;
- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States; and
- changes in financial regulations in Korea.

Labor unrest in Korea may adversely affect our operations.

Economic difficulties in Korea or increases in corporate reorganizations and bankruptcies could result in layoffs and higher unemployment. Such developments could lead to social unrest and substantially increase government expenditures for unemployment compensation and other costs for social programs. According to statistics from the Korea National Statistical Office, the unemployment rate increased from 3.7% in 2017 to 3.8% in 2018 and remained at 3.8% in 2019. Further increases in unemployment and any resulting labor unrest in the future could adversely affect our operations, as well as the operations of many of our customers and their ability to repay their loans, and could adversely affect the financial condition of Korean companies in general, depressing the price of their securities. These developments would likely have an adverse effect on our financial condition and results of operations.

Risks relating to our common stock and ADSs

We or our major stockholders may sell shares of our common stock or ADSs in the future, and these and other sales may adversely affect the market price of our common stock and ADSs and may dilute your investment and relative ownership in us.

We have no current plans for any public offerings of our common stock, ADSs or securities exchangeable for or convertible into such securities. However, it is possible that we may decide to offer or sell such securities in the future. In addition, our major stockholder, the Korean National Pension Service, held approximately 9.97% of our total issued common stock as of December 31, 2019, which it may sell at any time.

Any future offerings or sales by us of our common stock or ADSs or securities exchangeable for or convertible into such securities, significant sales of our common stock by a major stockholder, or the public perception that an offering or sales may occur, could have an adverse effect on the market price of our common stock and ADSs. Furthermore, any offerings by us in the future of any such securities could have a dilutive impact on your investment and relative ownership interest in us.

Ownership of our common stock is restricted under Korean law.

Under the Financial Holding Company Act, a single stockholder, together with its affiliates, is generally prohibited from owning more than 10.0% of the issued and outstanding shares of voting stock of a bank holding company such as us that controls a nationwide bank, with the exception of certain stockholders that are non-financial business group companies, whose applicable limit has been reduced from 9.0% to 4.0% pursuant to an amendment of the Financial Holding Company Act which became effective from February 14, 2014. To the extent that the total number of shares of our common stock (including those represented by ADSs) that a holder and its affiliates own exceeds the applicable limits, that holder will not be entitled to exercise the voting rights for the excess shares, and the Financial Services Commission may order that holder to dispose of the excess shares within a period of up to six months. Failure to comply with such an order would result in an administrative fine of up to 0.03% of the book value of such shares per day until the date of disposal. Non-financial business group companies can no longer acquire more than 4.0% of the issued and outstanding shares of voting stock of a bank holding company pursuant to the amended Financial Holding Company Act, which grants an exception for non-financial business group companies which, at the time of the enactment of the amended provisions, held more than 4.0% of the shares thereof with the approval of the Financial Services Commission before the amendment. See “Item 4.B. Business Overview—Supervision and Regulation—Principal Regulations Applicable to Financial Holding Companies—Restrictions on Ownership of a Financial Holding Company.”

A holder of our ADSs may not be able to exercise dissent and appraisal rights unless it has withdrawn the underlying shares of our common stock and become our direct stockholder.

In some limited circumstances, including the transfer of the whole or any significant part of our business and the merger or consolidation of us with another company, dissenting stockholders have the right to require us to purchase their shares under Korean law. However, holders of our ADSs will not be able to exercise such dissent and appraisal rights if the depositary refuses to do so on their behalf. Our deposit agreement does not require the depositary to take any action in respect of exercising dissent and appraisal rights. In such a situation, holders of our ADSs must withdraw the underlying common stock from the ADS facility (and incur charges relating to that withdrawal) and become our direct stockholder prior to the record date of the stockholders’ meeting at which the relevant transaction is to be approved, in order to exercise dissent and appraisal rights.

A holder of our ADSs may be limited in its ability to deposit or withdraw common stock.

Under the terms of our deposit agreement, holders of common stock may deposit such stock with the depositary’s custodian in Korea and obtain ADSs, and holders of ADSs may surrender ADSs to the depositary

and receive common stock. However, to the extent that a deposit of common stock exceeds the difference between:

- (1) the aggregate number of common shares we have deposited or we have consented to allow to be deposited for the issuance of ADSs (including deposits in connection with offerings of ADSs and stock dividends or other distributions relating to ADSs); and
- (2) the number of shares of common stock on deposit with the custodian for the benefit of the depositary at the time of such proposed deposit,

such common stock will not be accepted for deposit unless

- (A) our consent with respect to such deposit has been obtained; or
- (B) such consent is no longer required under Korean laws and regulations.

Under the terms of the deposit agreement, no consent is required if the shares of common stock are obtained through a dividend, free distribution, rights offering or reclassification of such stock. We have consented, under the terms of the deposit agreement, to any deposit to the extent that, after the deposit, the number of deposited shares does not exceed such number of shares as we determine from time to time (which number shall at no time be less than 100,000,000 shares), unless the deposit would be prohibited by applicable laws or ownership restrictions or violate our articles of incorporation. We might not consent to the deposit of any additional common stock. As a result, if a holder surrenders ADSs and withdraws common stock, it may not be able to deposit the stock again to obtain ADSs.

A holder of our ADSs will not have preemptive rights in some circumstances.

The Korean Commercial Code and our articles of incorporation require us, with some exceptions, to offer stockholders the right to subscribe for new shares of our common stock in proportion to their existing shareholding ratio whenever new shares are issued. If we offer any rights to subscribe for additional shares of our common stock or any rights of any other nature, to the extent practicable, the depositary may make the rights available to holders of our ADSs or dispose of the rights on behalf of such holders and make the net proceeds available to such holders. The depositary, however, is not required to make available to holders any rights to purchase any additional shares of our common stock unless it timely receives evidence satisfactory to it from us that it may lawfully do so and:

- a registration statement filed by us under the U.S. Securities Act of 1933, as amended, is in effect with respect to those shares; or
- the offering and sale of those shares is exempt from or is not subject to the registration requirements of the Securities Act.

Similarly, holders of our common stock located in the United States may not exercise any such rights they receive absent registration or an exemption from the registration requirements under the Securities Act.

We are under no obligation to file any registration statement with the U.S. Securities and Exchange Commission or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, a holder of our ADSs may be unable to participate in our rights offerings and may experience dilution in its holdings. If a registration statement is required for a holder of our ADSs to exercise preemptive rights but is not filed by us or is not declared effective, the holder will not be able to exercise its preemptive rights for additional ADSs and it will suffer dilution of its equity interest in us. If the depositary is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or practicable, it will allow the rights to lapse, in which case the holder will receive no value for these rights.

Dividend payments and the amount a holder of our ADSs may realize upon a sale of its ADSs will be affected by fluctuations in the exchange rate between the U.S. dollar and the Won.

Our common stock is listed on the KRX KOSPI Market of the Korea Exchange and quoted and traded in Won. Cash dividends, if any, in respect of the shares represented by the ADSs will be paid to the depositary in Won and then converted by the depositary into U.S. dollars, subject to certain conditions. Accordingly, fluctuations in the exchange rate between the Won and the U.S. dollar will affect, among other things, the amounts a holder of our ADSs will receive from the depositary in respect of dividends, the U.S. dollar value of the proceeds that it would receive upon sale in Korea of the shares of our common stock obtained upon surrender of ADSs and the secondary market price of ADSs. Such fluctuations will also affect the U.S. dollar value of dividends and sales proceeds received by holders of our common stock.

The market value of an investment in our ADSs may fluctuate due to the volatility of the Korean securities market.

Our common stock is listed on the KRX KOSPI Market, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of ADSs may fluctuate in response to the fluctuation of the trading price of shares of our common stock on the KRX KOSPI Market. The KRX KOSPI Market has experienced substantial fluctuations in the prices and volumes of sales of listed securities and the KRX KOSPI Market has prescribed a fixed range in which share prices are permitted to move on a daily basis. The KOSPI declined from 1,897.1 on December 31, 2007 to 938.8 on October 24, 2008. Due to the global outbreak of the COVID-19 pandemic, the KOSPI declined from 2,267.3 on January 22, 2020 to 1,457.6 on March 19, 2020, and on April 23, 2020, the KOSPI was 1,914.7. There is no guarantee that the stock prices of Korean companies will not decline again in the future. Like other securities markets, including those in developed markets, the Korean securities market has experienced problems including market manipulation, insider trading and settlement failures. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Korean companies, including our common stock and ADSs, in both the domestic and the international markets.

The Korean government has the potential ability to exert substantial influence over many aspects of the private sector business community, and in the past has exerted that influence from time to time. For example, the Korean government has promoted mergers to reduce what it considers excess capacity in a particular industry and has also encouraged private companies to publicly offer their securities. Similar actions in the future could have the effect of depressing or boosting the Korean securities market, whether or not intended to do so. Accordingly, actions by the government, or the perception that such actions are taking place, may take place or has ceased, may cause sudden movements in the market prices of the securities of Korean companies in the future, which may affect the market price and liquidity of our common stock and ADSs.

If the Korean government deems that emergency circumstances are likely to occur, it may restrict holders of our ADSs and the depositary from converting and remitting dividends and other amounts in U.S. dollars.

If the Korean government deems that certain emergency circumstances, including, but not limited to, severe and sudden changes in domestic or overseas economic circumstances, extreme difficulty in stabilizing the balance of payments or implementing currency exchange rate and other macroeconomic policies, have occurred or are likely to occur, it may impose certain restrictions provided for under the Foreign Exchange Transaction Act, including the suspension of payments or requiring prior approval from governmental authorities for any transaction. See “Item 10.D. Exchange Controls—General.”

A holder of our ADSs may not be able to enforce a judgment of a foreign court against us.

We are a corporation with limited liability organized under the laws of Korea. Substantially all of our directors and officers and other persons named in this document reside in Korea, and all or a significant portion

of the assets of our directors and officers and other persons named in this document and substantially all of our assets are located in Korea. As a result, it may not be possible for holders of our ADSs to effect service of process within the United States, or to enforce against them or us in the United States judgments obtained in United States courts based on the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the United States federal securities laws.

Item 4. INFORMATION ON THE COMPANY

Item 4.A. History and Development of the Company

Overview

We were established as a new financial holding company on September 29, 2008 pursuant to a “comprehensive stock transfer” under Korean law, whereby holders of the common stock of Kookmin Bank and certain of its subsidiaries transferred all of their shares to us in return for shares of our common stock. We were established pursuant to the Financial Holding Company Act, which was enacted in October 2000 and which, together with associated regulations and a related Enforcement Decree, has enabled banks and other financial institutions, including insurance companies, investment trust companies, credit card companies and securities companies, to be organized and managed under the auspices of a single financial holding company.

Our legal and commercial name is KB Financial Group Inc. Our registered office and principal executive offices are located at 26, Gukjegeumyung-ro 8-gil, Yeongdeungpo-gu, Seoul 07331, Korea. Our telephone number is +82-2-2073-7114. Our agent in the United States, Kookmin Bank, New York Branch, is located at 565 Fifth Avenue, 24th Floor, New York, NY 10017. Its telephone number is (212) 697-6100. The address of our English website is <https://www.kbfg.com/Eng/index.jsp>.

The U.S. Securities and Exchange Commission maintains a website (<http://www.sec.gov>), which contains reports, proxy and information statements and other information regarding issuers that file electronically with the U.S. Securities and Exchange Commission.

History of the Former Kookmin Bank

The former Kookmin Bank was established by the Korean government in 1963 under its original name of Citizens National Bank under the Citizens National Bank Act of Korea with majority government ownership. Under this Act, we were limited to providing banking services to the general public and to small- and medium-sized enterprises. In September 1994, we completed our initial public offering in Korea and listed our shares on the KRX KOSPI Market.

In January 1995, the Citizens National Bank Act of Korea was repealed and replaced by the Repeal Act of the Citizens National Bank Act. Our status was changed from a specialized bank to a nationwide commercial bank and in February 1995, we changed our name to Kookmin Bank. The Repeal Act allowed us to engage in lending to large businesses.

History of H&CB

H&CB was established by the Korean government in 1967 under the name Korea Housing Finance Corporation. In 1969, Korea Housing Finance Corporation became the Korea Housing Bank pursuant to the Korea Housing Bank Act. H&CB was originally established to provide low and middle income households with long-term, low-interest mortgages in order to help them purchase their own homes, and to promote the increase of housing supply in Korea by providing low-interest housing loans to construction companies. Until 1997 when the Korea Housing Bank Act was repealed, H&CB was the only entity in Korea allowed to provide mortgage loans with a term of longer than ten years. H&CB also had the exclusive ability to offer housing-related deposit accounts offering preferential rights to subscribe for newly-built apartments.

Merger of the Former Kookmin Bank and H&CB

Effective November 1, 2001, the former Kookmin Bank and H&CB merged into a new entity named Kookmin Bank. This merger resulted in Kookmin Bank becoming the largest commercial bank in Korea. Kookmin Bank's ADSs were listed on the New York Stock Exchange on November 1, 2001 and its common shares were listed on the KRX KOSPI Market on November 9, 2001.

Establishment of KB Financial Group

We were established on September 29, 2008 pursuant to a "comprehensive stock transfer" under Article 360-15 of the Korean Commercial Code, whereby holders of the common stock of Kookmin Bank and certain of its subsidiaries transferred all of their shares to us, a new financial holding company, and in return received shares of our common stock. In the stock transfer, each holder of one share of Kookmin Bank common stock received one share of our common stock, par value ₩5,000 per share. Holders of Kookmin Bank ADSs and global depositary shares, each of which represented one share of Kookmin Bank common stock, received one of our ADSs for every ADS or global depositary share they owned. In addition, holders of the common stock of KB Investment & Securities Co., Ltd., KB Asset Management Co., Ltd., KB Real Estate Trust Co., Ltd., KB Investment Co., Ltd., KB Futures Co., Ltd., KB Credit Information Co., Ltd., and KB Data Systems Co., Ltd., all of which were Kookmin Bank's subsidiaries, transferred all of their shares to us and, as consideration for such transferred shares, received shares of our common stock in accordance with the specified stock transfer ratio applicable to each such subsidiary. Following the completion of the stock transfer, Kookmin Bank, KB Investment & Securities Co., Ltd., KB Asset Management Co., Ltd., KB Real Estate Trust Co., Ltd., KB Investment Co., Ltd., KB Futures Co., Ltd., KB Credit Information Co., Ltd., and KB Data Systems Co., Ltd. became our wholly-owned subsidiaries.

The purpose of the stock transfer and our establishment as a financial holding company was to reorganize the different businesses of Kookmin Bank and its subsidiaries under a holding company structure, the adoption of which we believed would:

- assist us in creating an integrated system that facilitates the sharing of customer information and the development of integrated products and services by the different businesses within our subsidiaries;
- assist us in expanding our business scope to include new types of business with higher profit margins;
- enhance our ability to pursue strategic investments or reorganizations by way of mergers, acquisitions, spin-offs or other means;
- maximize our management efficiency; and
- further enhance our capacity to expand our overseas operations.

Following the stock transfer, our common stock was listed on the KRX KOSPI Market on October 10, 2008 and our ADSs were listed on the New York Stock Exchange on September 29, 2008.

Item 4.B. Business Overview

Business

We are one of the largest financial holding companies in Korea, in terms of consolidated total assets, and our operations include Kookmin Bank, one of the leading commercial banks in Korea. Our subsidiaries collectively engage in a broad range of businesses, including commercial banking, credit cards, asset management, non-life and life insurance, capital markets activities and international banking and finance. As of December 31, 2019, we had consolidated total assets of ₩519 trillion, consolidated total deposits of ₩306 trillion and consolidated total equity of ₩39 trillion.

As part of our commercial banking activities, we provide credit and related financial services to individuals and small- and medium-sized enterprises and, to a lesser extent, to large corporate customers. We also provide a full range of deposit products and related services to both individuals and enterprises of all sizes. We provide these services predominantly through Kookmin Bank.

By their nature, our core consumer and small- and medium-sized enterprise operations place a high premium on customer access and convenience. Our combined banking network of 1,051 branches as of December 31, 2019, one of the most extensive in Korea, provides a solid foundation for our business and is a major source of our competitive strength. This network provides us with a large, stable and cost effective funding source, enables us to provide our customers convenient access and gives us the ability to provide the customer attention and service essential to conducting our business, particularly in an increasingly competitive environment. Our branch network is further enhanced by automated banking machines and fixed-line, smartphone and Internet banking. As of December 31, 2019, we had a customer base of approximately 34.8 million retail customers, which represented over one-half of the Korean population.

The following table sets forth the principal components of our lending business as of the dates indicated. As of December 31, 2019, retail loans and credit card loans and receivables accounted for 54.1% of our total loan portfolio:

	As of December 31,					
	2017		2018		2019	
	(in billions of Won, except percentages)					
Retail						
Mortgage and home equity ⁽¹⁾	₩ 97,253	33.3%	₩102,607	31.9%	₩106,711	31.2%
Other consumer ⁽²⁾	48,897	16.7	56,200	17.5	59,596	17.4
Total retail	146,150	50.0	158,807	49.4	166,307	48.6
Credit card	15,205	5.2	17,354	5.4	18,648	5.5
Corporate	127,381	43.6	140,701	43.7	149,152	43.6
Foreign	3,497	1.2	4,949	1.5	7,985	2.3
Total loans	₩292,233	100.0%	₩321,811	100.0%	₩342,092	100.0%

⁽¹⁾ Includes ₩699 billion, ₩6,072 billion and ₩6,266 billion of overdraft loans secured by real estate in connection with home equity loans as of December 31, 2017, 2018 and 2019, respectively.

⁽²⁾ Includes ₩7,791 billion, ₩9,361 billion and ₩9,472 billion of overdraft loans as of December 31, 2017, 2018 and 2019, respectively.

We provide a full range of personal lending products and retail banking services to individual customers, including mortgage loans. We are the largest private sector mortgage lender in Korea.

Lending to small- and medium-sized enterprises is the single largest component of our non-retail credit portfolio and represents a widely diversified exposure to a broad spectrum of the Korean corporate community, both by type of lending and type of customer, with one of the categories being collateralized loans to SOHO customers that are among the smallest of the small- and medium-sized enterprises. The volume of our loans to small- and medium-sized enterprises requires a customer-oriented approach that is facilitated by our large and geographically diverse branch network.

With respect to large corporate customers, we continue to seek to maintain and expand quality relationships by providing them with an increasing range of fee-related services.

Strategy

Our strategic focus is to become a world-class financial group that ranks among the leaders of the financial industry in Asia and globally. We plan to continue to solidify our market position as Korea's leading financial

group, enhance our ability to provide comprehensive financial services to our retail and corporate customers and strengthen our overseas operating platform and network. We believe our strong market position in the commercial banking area in Korea is an important competitive advantage, which will enable us to compete more effectively based on convenient delivery, product breadth and differentiation, and service quality while focusing on our profitability.

The key elements of our strategy are as follows:

Providing comprehensive financial services and maximizing synergies among our subsidiaries through our financial holding company structure

We believe the Korean financial services market has been undergoing and will continue to undergo significant change, resulting from, among other things, fluctuations in the Korean and global economy and the evolving social landscape in Korea, including the acceleration of population aging in Korea, the prevalence of smartphone usage, developments in digital and mobile technologies and the ensuing trend toward high-tech “smart banking” in the banking sector. In the context of such changes, we plan to become a comprehensive financial services provider capable of offering a full range of products and services to our large existing base of retail and corporate customers, as well as a global firm that can effectively compete with leading international financial institutions. To that end, we are continuing to implement specific initiatives including the enhancement of our group-wide integrated customer relationship management system to facilitate the sharing of customer information in accordance with applicable laws and the integration of various customer loyalty programs among our subsidiaries.

We believe our financial holding company structure gives us a competitive advantage over commercial banks and unaffiliated financial services providers by:

- allowing us to offer a more extensive range of financial products and services;
- enabling us to share customer information, which is not permitted outside a financial holding company structure, thereby enhancing our risk management capabilities;
- enhancing our ability to reduce costs in areas such as back-office processing and procurement; and
- enabling us to raise and manage capital on a centralized basis.

Identifying, targeting and marketing to attractive customer segments and providing superior customer value and service to such segments

In recent years, rather than focusing on developing products and services to satisfy the overall needs of the general population, we have increasingly targeted specific market segments in Korea that we expect to generate superior growth and profitability. We will continue to implement a targeted marketing approach that seeks to identify the most attractive customer segments and to develop strategies to build market share in those segments. In particular, we intend to increase our “wallet share” of superior existing customers by using our advanced customer relationship management technology to better identify and meet the needs of our most creditworthy and high net worth customers, on whom we intend to concentrate our marketing efforts. For example, as part of this strategy, we operate a “priority customer” program called KB Star Club through five of our subsidiaries, Kookmin Bank, KB Securities, KB Insurance, KB Kookmin Card and KB Life Insurance. We select and classify KB Star Club customers based on their transaction history with the five entities and provide such customers with preferential treatment in various areas, including interest rates and transaction fees, depending upon how they are classified. We also provide private banking services, including personal wealth management services through our exclusive brand “Gold & Wise,” to increase our share of the priority customer market and in turn increase our profitability and strengthen our position in retail banking.

We are also focusing on attracting and retaining creditworthy customers by offering more differentiated fee-based products and services that are tailored to meet their specific needs. The development and marketing of

our products and services are, in part, driven by customer segmentation to ensure that we meet the needs of each customer segment. For instance, we continue to develop hybrid financial products with enhanced features, including various deposit products and investment products, for which consumer demand has increased in recent years. We are also focusing on addressing the needs of our customers by providing the highest-quality products and services and developing an open-architecture strategy, which allows us to sell such products through one of the largest branch networks in Korea. In short, we aim to offer our customers a convenient one-stop financial services destination where they can meet their traditional retail and corporate banking requirements, as well as find a broad array of fee-based products and services tailored to address more specific financial needs, including in investment banking, securities brokerage, insurance and wealth management. We believe such differentiated, comprehensive services and cross-selling will not only enhance customer loyalty but also increase profitability.

One of our key customer-related strategies continues to be creating greater value and better service for our customers. We intend to continue improving our customer service, including through:

- *Improved customer relationship management technology.* Management has devoted substantial resources toward development of our customer relationship management system, which is designed to provide our employees with the information needed to continually improve the level of service and incentives offered to our preferred customers. Our integrated customer relationship system allows for better customer management and streamlines our customer reward system. We have also developed state-of-the-art call centers, smartphone applications and online Internet capabilities to provide shorter response times to customers seeking information or to execute transactions. Our goals are to continually focus on improving customer service to satisfy our customers' needs through continuing efforts to deliver new and improved services and to upgrade our customer relationship management system to provide the best possible service to our customers in the future.
- *Enhanced distribution channels.* We also believe we can improve customer retention and usage rates by increasing the range of products and services we offer and by developing a differentiated, multi-channel distribution network, including branches, ATMs, call centers, smartphone banking and Internet banking. We believe that our leading market position in the commercial banking area in Korea gives us a competitive advantage in developing and enhancing our distribution capabilities.

Focusing on expanding and improving credit quality in our corporate lending business and increasing market share in the corporate financial services market

We plan to focus on corporate lending as one of our core businesses through attracting top-tier corporate customers and providing customized and distinctive products and services to build our position as a leading service provider in the Korean corporate financial market. To increase our market share in providing financial services to the corporate market, we intend to:

- promote a more balanced and strengthened portfolio with respect to our corporate business by developing our large corporate customer base and utilizing our improved credit management operations to better evaluate new large corporate and small- and medium-sized enterprise customers;
- develop and sell more varied corporate financial products, consisting of transactional banking products which provide higher margin and less risk;
- generate more fee income from large corporate customers through business-to-business transactions, foreign exchange transactions and derivative and other investment products, as well as investment banking services;
- strengthen our marketing system based on our accumulated expertise in order to attract top-tier corporate customers;

- focus on enhancing our channel network in order to provide the best service by strengthening our corporate customer management; and
- further develop and train our core professionals with respect to this market, including through programs such as the “Career Development Path.”

Strengthening internal risk management capabilities

We believe that ensuring strong asset quality through effective credit risk management is critical to maintaining stable growth and profitability and risk management will continue to be one of our key focus areas. One of our highest priorities is to improve our asset quality and more effectively price our lending products to take into account inherent credit risk in our portfolio. Our goal is to maintain the soundness of our credit portfolio, profitability and capital base. To this end, we intend to continue to strengthen our internal risk management capabilities by tightening our underwriting and management policies and improving our internal compliance policies. To accomplish this objective, we have undertaken the following initiatives:

- *Strengthening underwriting procedures with advanced credit scoring techniques.* We have centralized our credit management operations into our Credit Management and Analysis Group. Through such centralization, we aim to enhance our credit management expertise and improve our system of checks-and-balances with respect to our credit portfolio. We have also improved our ability to evaluate the credit of our small- and medium-sized enterprise customers through assigning experienced credit officers to our regional credit offices. We also require the same officer to evaluate, review and monitor the outstanding loans and other credits with respect to a customer, which we believe enhances the expertise and improves the efficiency and accountability of such officer, while enabling us to maintain a consistent credit policy. We have also, as a general matter, implemented enhanced credit analysis and scoring techniques, which we believe will enable us to make better-informed decisions about the credit we extend and improve our ability to respond more quickly to incipient credit problems. We are also focusing on enhancing our asset quality through improvement of our early monitoring systems and collection procedures.
- *Improving our internal compliance policy and ensuring strict application in our daily operations.* We have improved our monitoring capabilities with respect to our internal compliance by providing training and educational programs to our management and employees. We have also implemented strict compliance policies to maintain the integrity of our risk management system.

Cultivating a performance-based, customer-oriented culture that emphasizes market best practices

We believe a strong and dedicated workforce is critical to our ability to offer our customers the highest quality financial services and is integral to our goal of maintaining our position as one of Korea’s leading financial services providers. In the past, we have dedicated significant resources to develop and train our core professionals, and we intend to continue to enhance the productivity of our employees, including by regularly sponsoring in-house training and educational programs. We have also been seeking to cultivate a performance-based culture to create a work environment where members of our staff are incentivized to maximize their potential and in which our employees are directly rewarded for superior performance. We intend to maintain a professional workforce whose high quality of customer service reflects our goal to achieve and maintain global best practice standards in all areas of operations.

Retail Banking

Due to Kookmin Bank’s history and development as a retail bank and the know-how and expertise we have acquired from our activities in that market, retail banking has been and will continue to remain one of our core businesses. Our retail banking activities consist primarily of lending and deposit-taking.

Lending Activities

We offer various loan products that target different segments of the population, with features tailored to each segment's financial profile and other characteristics. The following table sets forth the balances and the percentage of our total retail lending represented by the categories of our retail loans as of the dates indicated:

	As of December 31,					
	2017		2018		2019	
	(in billions of Won, except percentages)					
Retail:						
Mortgage and home equity loans	₩ 97,253	66.5%	₩102,607	64.6%	₩106,711	64.2%
Other consumer loans ⁽¹⁾	48,897	33.5	56,200	35.4	59,596	35.8
Total	<u>₩146,150</u>	<u>100.0%</u>	<u>₩158,807</u>	<u>100.0%</u>	<u>₩166,307</u>	<u>100.0%</u>

⁽¹⁾ Excludes credit card loans, but includes overdraft loans.

Our retail loans consist of:

- *Mortgage loans*, which are loans made to customers to finance home purchases, construction, improvements or rentals; and *home equity loans*, which are loans made to our customers secured by their homes to ensure loan repayment. We also provide overdraft loans in connection with our home equity loans.
- *Other consumer loans*, which are loans made to customers for any purpose (other than mortgage and home equity loans). These include overdraft loans, which are loans extended to customers to cover insufficient funds when they withdraw funds from their demand deposit accounts with us in excess of the amount in such accounts up to a limit established by us.

For secured loans, including mortgage and home equity loans, our policy is to lend up to 100% of the adjusted collateral value (except in areas of high speculation designated by the government where we generally limit our lending to between 10% to 60% of the appraised value of collateral) minus the value of any lien or other security interests that are prior to our security interest. In calculating the adjusted collateral value for real estate, we use the appraisal value of the collateral multiplied by a factor, generally between 39% to 85% (10% to 70% in the case of mortgage and home equity loans). This factor varies depending upon the location and use of the real estate and is established in part by taking into account court-supervised auction prices for nearby properties.

A borrower's eligibility for our mortgage loans depends on the value of the mortgage property, the appropriateness of the use of proceeds and the borrower's creditworthiness. A borrower's eligibility for home equity loans is determined by the borrower's credit and the value of the property, while the borrower's eligibility for other consumer loans is primarily determined by the borrower's credit. If the borrower's credit deteriorates, it may be difficult for us to recover the loan. As a result, we review the borrower's creditworthiness, collateral value, credit scoring and third party guarantees when evaluating a borrower. In addition, to reduce the interest rate of a loan or to qualify for a loan, a borrower may provide collateral, deposits or guarantees from third parties.

Mortgage and Home Equity Lending

The housing finance market in Korea is divided into public sector and private sector lending. In the public sector, two government entities, the National Housing and Urban Fund and the National Agricultural Cooperative Federation, are responsible for most of the mortgage lending.

Private sector mortgage and home equity lending in Korea has expanded substantially in recent years. We provide customers with a number of mortgage and home equity loan products that have flexible features, including terms, repayment schedules, amounts and eligibility for loans, and we offer interest rates on a

commercial basis. The maximum term of mortgage loans is 35 years and the majority of our mortgage loans have long-term maturities, which may be renewed. Non-amortizing home equity loans have a maturity of one to five years and home equity loans subject to amortization of principal may have a maximum term of up to 35 years. As of December 31, 2019, we had ₩26,673 billion of amortizing home equity loans, representing 93.2% of our total home equity loans, and ₩1,938 billion of non-amortizing home equity loans, representing 6.8% of our total home equity loans. Any customer is eligible for a mortgage or an individual home equity loan regardless of whether it participates in one of our housing related savings programs and so long as that customer is not barred by regulation from obtaining a loan because of bad credit history. However, customers with whom we frequently transact business and provide us with significant revenue receive preferential interest rates on loans.

As of December 31, 2019, 57.8% of our mortgage loans were secured by residential property which is the subject of the loan, 23.9% of our mortgage loans were guaranteed by the Housing Finance Credit Guarantee Fund, a government housing-related entity, and the remaining 18.3% of our mortgage loans, contrary to general practices in the United States, were unsecured (although the use of proceeds from these loans is restricted to financing of home purchases and some of these loans are guaranteed by a third party). One reason that a relatively high percentage of our mortgage loans are unsecured is that we, along with other Korean banks, provide advance loans to borrowers for the down payment of new housing (particularly apartments) that is in the process of being built. Once construction is completed, which may take several years, these mortgage loans become secured by the new housing purchased by these borrowers. For the year ended December 31, 2019, the average initial loan-to-value ratio of our mortgage loans, which is a measure of the amount of loan exposure to the appraised value of the security collateralizing the loan, was approximately 50.0%. There are three reasons that our loan-to-value ratio is relatively lower (as is the case with other Korean banks) compared to similar ratios in other countries, such as the United States. The first reason is that housing prices are high in Korea relative to average income, so most people cannot afford to borrow an amount equal to the entire value of their collateral and make interest payments on such an amount. The second reason relates to the “*jeonsae*” system, through which people provide a key money deposit while residing in the property prior to its purchase. At the time of purchase, most people use the key money deposit as part of their payment and borrow the remaining amount from Korean banks, which results in a loan that will be for an amount smaller than the appraised value of the property for collateral and assessment purposes. The third reason is that Korean banks discount the appraised value of the borrower’s property for collateral and assessment purposes so that a portion of the appraised value is reserved in order to provide recourse to a renter who lives at the borrower’s property. This is in the event that the borrower’s property is seized by a creditor, and the renter is no longer able to reside at that property. See “Item 3.D. Risk Factors—Other risks relating to our business—A decline in the value of the collateral securing our loans and our inability to realize full collateral value may adversely affect our credit portfolio.”

The following table sets forth our unsecured and secured mortgage loans and home equity loans as of December 31, 2017, 2018 and 2019, based on their loan classification categories under IFRS and our internal credit ratings for loans (which are described in Note 4.2.4 of the notes to our consolidated financial statements):

As of December 31, 2017										
	Non-impaired					Past Due	Impaired			Total
	Not Past Due						Past Due Up to 89 Days	Past Due 90 Days to 179 Days	Past Due 180 Days or More	
	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5					
(in billions of Won)										
Mortgage:										
Secured ⁽¹⁾	₩54,547	₩6,645	₩336	₩ 76	₩ 75	₩426	₩ 67	₩23	₩42	₩62,237
Unsecured	1,800	88	2	2	1	5	1	1	3	1,903
Home Equity:										
Secured	30,039	2,358	259	56	57	260	44	15	25	33,113
Unsecured	—	—	—	—	—	—	—	—	—	—
Total	₩86,386	₩9,091	₩597	₩134	₩133	₩691	₩112	₩39	₩70	₩97,253

As of December 31, 2018 ⁽²⁾										
	Stage 1					Stage 2	Stage 3	Total		
	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5					
	(in billions of Won)									
Mortgage:										
Secured ⁽¹⁾		₩59,162	₩1,206	₩ 32	₩141	₩ 1	₩ 6,969	₩138	₩ 67,649	
Unsecured		3,088	41	1	—	—	117	4	3,251	
Home Equity:										
Secured		27,708	711	76	5	2	3,020	98	31,620	
Unsecured		60	22	5	—	—	—	—	87	
Total		₩90,018	₩1,980	₩114	₩146	₩ 3	₩10,106	₩240	₩102,607	

As of December 31, 2019 ⁽²⁾										
	Stage 1					Stage 2	Stage 3	Total		
	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5					
	(in billions of Won)									
Mortgage:										
Secured ⁽¹⁾		₩69,797	₩ 930	₩ 31	₩ 2	₩ 1	₩5,180	₩169	₩ 76,110	
Unsecured		1,930	19	1	—	—	36	4	1,990	
Home Equity:										
Secured		25,655	493	126	7	2	2,203	114	28,600	
Unsecured		6	4	1	—	—	—	—	11	
Total		₩97,388	₩1,446	₩159	₩ 9	₩ 3	₩7,419	₩287	₩106,711	

⁽¹⁾ Includes advance loans guaranteed by the Housing Finance Credit Guarantee Fund to borrowers for the down payment of new housing that is in the process of being built.

⁽²⁾ See "Item 5.A. Operating Results—Critical Accounting Policies—Impairment of Loans and Allowance for Loan Losses."

Our home equity loan portfolio includes loans that are in a second lien position. In addition to the underwriting procedures we perform when we issue home equity loans in general, we perform additional underwriting procedures with respect to home equity loans secured by a second lien to assess and confirm the value and status of any loans secured by security interests on the collateral which would be prior to our security interest under the second lien home equity loan. Under regulations implemented by the Financial Supervisory Service, our home equity loans are subject to maximum loan-to-value ratios (i.e., the ratio of the aggregate principal amount of loans, including first and second lien loans, secured by a particular item of collateral to the appraised value of such collateral) of between 10% and 70%. As such, for home equity loans, we do not lend more than an amount equal to the adjusted collateral value (i.e., the collateral value as discounted by the required loan-to-value ratio) minus the value of any loans secured by security interests on the collateral that are prior to our security interest. Accordingly, in order to ascertain the value of loans secured by security interests on the

collateral which would be prior to our security interest and to confirm the status of such loans, we perform additional underwriting procedures including a review of the relevant title and security interest registration documents and bank documents and certificates regarding such loans. In addition, for purposes of calculating debt-to-income ratios applicable to loans secured by certain types of housing under regulations implemented by the Financial Supervisory Service (see “—Supervision and Regulation—Principal Regulations Applicable to Banks—Regulations Relating to Retail Household Loans”), which we apply on a nationwide basis for our home equity loans, we perform additional adjustments in our debt-to-income ratio calculations with respect to second lien home equity loans to account for the value of loans secured by security interests on the collateral that are prior to our security interest.

Following the issuance of a home equity loan, we make use of the Korea Credit Information Services’ database of delinquent borrowers to generally monitor the compliance of our borrowers with their other loan obligations, including the compliance of our second lien borrowers with their first lien loans. If a borrower in Korea is past due on payments of interest or principal for more than three months on any of its outstanding loans to Korean financial institutions (including mortgage, home equity, other consumer and credit card loans), such borrower is registered on the Korea Credit Information Services’ database of delinquent borrowers, which we monitor on a daily basis. The information disclosed by such database, which includes the outstanding loan amount which is past due, the identity of the delinquent borrower and the name of the applicable lending institution for such loan, provides an early warning about such borrower to our loan officers at the branch level, who then closely monitor our outstanding loans to such delinquent borrower and take appropriate preventive and remedial measures (including requiring such borrower to provide additional collateral) as necessary. Upon the occurrence of a default in the first lien position, we treat the second lien home equity loan as part of our potential problem loans or non-performing loans. More specifically, upon learning of the occurrence of a default in the first lien position, we examine our second lien home equity loan to determine whether the loan should be re-classified as “precautionary,” “substandard” or “doubtful” according to the asset classification guidelines of the Financial Services Commission. Assuming that such second lien home equity loan is not delinquent, if the outstanding principal amount of the relevant first lien loan is less than ₩15 million, we classify the entire amount of the second lien home equity loan as “precautionary” and closely monitor it as a loan that may potentially become problematic. If the outstanding principal amount of the relevant first lien loan is ₩15 million or more or the borrower is undergoing, or preparing to undergo, foreclosure proceedings with respect to the underlying collateral, we classify the estimated recoverable amount of the second lien home equity loan as “substandard” and the rest of such loan amount as “doubtful.”

Pricing. The interest rates on our retail mortgage loans are generally based on a periodic floating rate (which is based on a base rate determined for three-month, six-month or twelve-month periods using our Market Opportunity Rate system, which reflects our internal cost of funding, further adjusted to account for our expenses related to lending). Our interest rates also incorporate a margin based among other things on the type of security, the credit score of the borrower and the estimated loss on the security. We can adjust the price to reflect the borrower’s current and/or expected future contribution to us. The applicable interest rate is determined at the time of the loan. If a loan is terminated prior to its maturity, the borrower is obligated to pay us an early termination fee of approximately 1.2% to 1.4% of the loan amount in addition to the accrued interest.

The interest rates on our home equity loans are determined on the same basis as our retail mortgage loans.

As of December 31, 2019, the Market Opportunity Rate was 1.53% for a three-month period, 1.52% for a six-month period and 1.51% for a twelve-month period.

As of December 31, 2019, 89.2% of our outstanding mortgage and home equity loans were priced based on a floating rate.

Other Consumer Loans

Other consumer loans are primarily unsecured. However, such loans may be secured by real estate, deposits or securities. As of December 31, 2019, approximately ₩33,527 billion, or 56.3% of our consumer loans (other than mortgage and home equity loans) were unsecured loans (although some of these loans were guaranteed by a third party). Overdraft loans are also classified as other consumer loans, are primarily unsecured and generally have an initial maturity of one year, which is typically extended automatically on an annual basis and may be extended up to a maximum of five years. The amount of overdraft loans as of December 31, 2019 was approximately ₩9,472 billion.

Pricing. The interest rates on our other consumer loans (including overdraft loans) are determined on the same basis as on our mortgage and home equity loans, except that, for unsecured loans, the borrower's credit score as determined during our loan approval process is also taken into account. See "Item 11. Quantitative and Qualitative Disclosures about Market Risk—Credit Risk Management."

As of December 31, 2019, 56.3% of our other consumer loans had interest rates that were not fixed but were variable in reference to our base rate, which is based on the Market Opportunity Rate.

Deposit-taking Activities

Due to our extensive nationwide network of branches, together with our long history of development and our resulting know-how and expertise, as of December 31, 2019, we had the largest number of retail customers and retail deposits among Korean commercial banks. The balance of our deposits from retail customers was ₩169,246 billion, ₩174,851 billion and ₩185,666 billion as of December 31, 2017, 2018 and 2019, respectively, which constituted 66.2%, 63.2% and 60.8%, respectively, of the balance of our total deposits.

We offer many deposit products that target different segments of our retail customer base, with features tailored to each segment's financial profile, characteristics and needs, including:

- *Demand deposits*, which either do not accrue interest or accrue interest at a lower rate than time deposits. Demand deposits allow the customer to deposit and withdraw funds at any time and, if they are interest bearing, accrue interest at a variable rate depending on the amount of deposit. Retail and corporate demand deposits constituted 41.2% of our total deposits as of December 31, 2019 and paid average interest of 0.30% for 2019.
- *Time deposits*, which generally require the customer to maintain a deposit for a fixed term, during which the deposit accrues interest at a fixed rate or a variable rate based on the KOSPI, or to deposit specified amounts on an installment basis. If the amount of the deposit is withdrawn prior to the end of the fixed term, the customer will be paid a lower interest rate than that originally offered. The term for time deposits typically ranges from one month to three years, and the term for installment savings deposits ranges from six months to five years. Retail and corporate time deposits constituted 50.3% of our total deposits as of December 31, 2019 and paid average interest of 1.94% for 2019. Most installment savings deposits offer fixed interest rates.
- *Certificates of deposit*, the maturities of which typically range from 30 days to 730 days with a required minimum deposit of ₩10 million. Interest rates on certificates of deposit are determined based on the length of the deposit and prevailing market rates. Our certificates of deposit are sold at a discount to their face value, reflecting the interest payable on the certificates of deposit.
- *Foreign currency deposits*, which are available to Korean and foreign residents, non-residents and overseas immigrants. We offer foreign currency demand deposits and time deposits as well as checking accounts in 11 currencies. *Foreign currency demand deposits*, which accrue interest at a variable rate, allow customers to deposit and withdraw funds at any time. *Foreign currency time deposits* generally require customers to maintain the deposit for a fixed term, during which the deposit accrues interest at a fixed rate. If the funds in a foreign currency time deposit are withdrawn prior to the end of the fixed term, the customer will be paid a lower interest rate than that originally offered.

We offer varying interest rates on our deposit products depending upon average funding costs, the rate of return on our interest-earning assets and the interest rates offered by other commercial banks.

We also offer comprehensive savings deposits for housing subscription, which are monthly installment savings deposits that provide the holder with preferential rights to subscribe for both public and private housing under the Housing Act. This law is the basic law setting forth various measures supporting the purchase of houses and the supply of such houses by construction companies. These deposits require monthly installments of ₩20,000 to ₩500,000 and accrue interest at variable rates depending on the term. An eligible account holder with ₩70 million or less in annual salary income may also claim a tax deduction for 40% of its annual installment amounts, subject to a maximum deductible amount, in its income tax return for the year under the Special Tax Treatment Control Law.

In 2002, after significant research and planning, we launched private banking operations at Kookmin Bank's headquarters. Shortly thereafter, we launched a comprehensive strategy with respect to customers with higher net worth, which included staffing appropriate representatives, marketing aggressively, establishing IT systems, selecting appropriate branch locations and readying such branches with the necessary facilities to service such customers. As of December 31, 2019, we operated 21 private banking centers through Kookmin Bank.

The Monetary Policy Board of the Bank of Korea, or the Monetary Policy Board, imposes a reserve requirement on Won currency deposits of commercial banks based generally on the type of deposit instrument. The reserve requirement is currently up to 7%. See “—Supervision and Regulation—Principal Regulations Applicable to Banks—Liquidity.”

The Depositor Protection Act provides for a deposit insurance system where the Korea Deposit Insurance Corporation guarantees to depositors the repayment of their eligible bank deposits. The deposit insurance system insures up to a total of ₩50 million per depositor per bank. See “—Supervision and Regulation—Principal Regulations Applicable to Banks—Deposit Insurance System.” We paid ₩401 billion of premium for 2019.

Credit Cards

Credit cards are another of our core retail products. We issue most of our credit cards under the “KB Kookmin Card” brand. Our credit card business is operated by our subsidiary, KB Kookmin Card Co., Ltd.

The following table sets forth certain data relating to our credit card operations, on a non-consolidated basis, as of the dates and for the periods indicated:

	As of and for the Year Ended December 31,		
	2017	2018	2019
	(in billions of Won, except number of holders, accounts and percentages)		
Number of credit cardholders (at year end) (thousands)			
General accounts	9,217	9,772	10,265
Corporate accounts	502	564	615
Total	<u>9,719</u>	<u>10,336</u>	<u>10,880</u>
Number of merchants (at year end) (thousands)			
Active ratio (at year end) ⁽¹⁾	90.0%	89.2%	91.0%
Credit card fees⁽²⁾			
Merchant fees ⁽³⁾	₩ 1,816	₩ 1,327	₩ 1,239
Installment and cash advance fees	406	450	492
Annual membership fees	127	114	138
Other fees	807	922	987
Total	<u>₩ 3,156</u>	<u>₩ 2,813</u>	<u>₩ 2,856</u>
Charge volume⁽⁴⁾			
General purchase	₩60,657	₩ 70,622	₩ 77,413
Installment purchase	15,553	17,493	19,222
Cash advance	8,885	9,331	9,265
Card loan ⁽⁵⁾	5,736	6,098	6,654
Total	<u>₩90,831</u>	<u>₩103,544</u>	<u>₩112,554</u>
Outstanding balance (at year end)			
General purchase	₩ 5,356	₩ 6,417	₩ 7,028
Installment purchase	4,090	4,772	5,107
Cash advance	1,240	1,257	1,208
Card loan ⁽⁵⁾	4,552	4,942	5,345
Total	<u>₩15,238</u>	<u>₩ 17,388</u>	<u>₩ 18,688</u>
Average outstanding balances			
General purchase	₩ 5,373	₩ 6,145	₩ 6,748
Installment purchase	3,777	4,449	4,905
Cash advance	1,186	1,230	1,210
Card loan ⁽⁵⁾	4,560	4,917	5,107
Total	<u>₩14,896</u>	<u>₩ 16,741</u>	<u>₩ 17,970</u>
Delinquency ratios (at year end)⁽⁶⁾			
From 1 month to 3 months	0.62%	0.63%	0.56%
From 3 months to 6 months	0.63	0.63	0.55
Over 6 months	0.04	0.05	0.14
Total	<u>1.29%</u>	<u>1.31%</u>	<u>1.25%</u>
Non-performing loan ratio			
Write-offs (gross)	₩ 401	₩ 465	₩ 506
Recoveries ⁽⁷⁾	133	135	138
Net write-offs	<u>₩ 268</u>	<u>₩ 330</u>	<u>₩ 368</u>
Gross write-off ratio ⁽⁸⁾	2.69%	2.78%	2.82%
Net write-off ratio ⁽⁹⁾	1.80%	1.97%	2.05%

⁽¹⁾ The active ratio represents the ratio of accounts used at least once within the last six months to total accounts as of year-end.

- (2) Due to our adoption of IFRS 15 *Revenue from Contracts with Customers*, effective as of January 1, 2018, credit card fees for 2018 and 2019 exclude certain fees related to our services provided to cardholders. Figures for 2017 have not been restated to reflect such changes and may not be directly comparable.
- (3) Merchant fees consist of maintenance fees and costs associated with prepayment by us (on behalf of customers) of sales proceeds to merchants, processing fees relating to sales and membership applications, costs relating to the management of delinquencies and recoveries, provision for loan losses, general variable expenses and other fixed costs that are charged to our member merchants. We typically charge our member merchants fees that range from 0.8% to 2.3%. We offer discounts for member merchants that are small- and medium-sized enterprises pursuant to applicable laws.
- (4) Represents the aggregate cumulative amount charged during the year.
- (5) Card loans consist of loans that are provided on an unsecured basis to cardholders upon prior agreement. Payment on such a loan can be due either in one payment or in installments after a fixed period, in the case of principal payments, and will be due in installments, in the case of interest payments.
- (6) Represents ratio of credit card balances overdue by one month or more to outstanding balance. In line with industry practice, we have restructured a portion of delinquent credit card account balances as loans. As of December 31, 2017, 2018 and 2019, these restructured loans amounted to ₩55 billion, ₩97 billion and ₩116 billion, respectively. Because these restructured loans are not treated as being delinquent at the time of conversion or for a period of time thereafter, our delinquency ratios may not fully reflect all delinquent amounts relating to our outstanding balances.
- (7) Does not include proceeds that we received from sales of our non-performing loans that were written off.
- (8) Represents the ratio of gross write-offs for the year to average outstanding balance for the year. Our charge-off policy is generally to write off balances which have been overdue for four payment cycles or more or which have been classified as expected loss.
- (9) Represents the ratio of net write-offs for the year to average outstanding balances for the year. Our charge-off policy is generally to write off balances which have been overdue for four payment cycles or more or which have been classified as expected loss.

In contrast to the system in the United States and many other countries, where most credit cards are revolving cards that allow outstanding amounts to be rolled over from month to month so long as a required minimum percentage is repaid, credit cardholders in Korea are generally required to pay for their purchases within approximately 14 to 44 days of purchase depending on their payment cycle. However, we also offer revolving payment plans to individuals that allow outstanding amounts to be rolled over to subsequent payment periods. Delinquent accounts (defined as amounts overdue for one day or more) are charged penalty interest and closely monitored. For installment purchases, we charge interest on unpaid installments at rates that vary according to the individual cardholder's membership level, which is based on, among others, transaction history, the length of the cardholder's relationship with us and contribution to our profitability.

We are committed to continuing to enhance our credit card business by strengthening our risk management and maximizing our operational efficiency. In addition, we believe that our extensive branch network, brand recognition and overall size will enable us to cross-sell products such as credit cards to our existing and new customers.

To promote our credit card business, we offer services targeted to various financial profiles and customer requirements and are concentrating on:

- strengthening cross-sales to existing customers and offering integrated financial services;
- offering cards that provide additional benefits such as frequent flyer miles and reward program points that can be redeemed by the customer for complementary services, prizes and cash;
- offering platinum cards, VVIP cards and other prime members' cards, which have a higher credit limit and provide additional services in return for a higher fee;
- acquiring new customers through strategic alliances and cross-marketing with retailers;
- encouraging increased use of credit cards by existing customers through special offers for frequent users;
- introducing new features such as travel services and insurance through alliance partners; and
- developing fraud detection and security systems to prevent the misuse of credit cards.

As of December 31, 2019, we had approximately 10.9 million credit cardholders. Of the credit cards outstanding, approximately 91.0% were active, meaning that they had been used at least once during the previous six months.

Our card revenues consist principally of cash advance fees, merchant fees, credit card installment fees, interest income from credit card loans, annual fees paid by cardholders, interest and fees on late payments and, with respect to revolving payment plans we offer, interest and fees relating to revolving balances.

Under non-exclusive license agreements with overseas financial services corporations, we also issue MasterCard, Visa, American Express, JCB and China UnionPay credit cards.

We issue debit cards and charge merchants commissions in the amount of approximately 1.0% of the amounts purchased using a debit card. We also issue “check cards,” which are similar to debit cards except that “check cards” are accepted by all merchants that accept credit cards, and charge merchants commissions that typically range from 0.5% to 1.5%. Much like debit cards, check card purchases are also debited directly from customers’ accounts with us.

Corporate Banking

We lend to and take deposits from small- and medium-sized enterprises and, to a lesser extent, large corporate customers. We had 311,465 small- and medium-sized enterprise borrowers and 1,875 large corporate borrowers for Won-currency loans as of December 31, 2019. For 2019, we received fee revenue from cash management services offered to corporate customers, which include “firm-banking” services such as inter-account transfers, transfers of funds from various branches and agencies of a company (such as insurance premium payments) to the account of the headquarters of such company and transfers of funds from various customers of a company to the main account of such company, in the amount of ₩138 billion. Of our branch network as of December 31, 2019, we had three branches that primarily handled large corporate banking.

The following table sets forth the balances and the percentage of our total corporate lending represented by our small- and medium-sized enterprise business loans and our large corporate business loans as of the dates indicated, estimated based on our internal classifications of corporate borrowers:

	As of December 31,					
	2017		2018		2019	
	(in billions of Won, except percentages)					
Corporate:						
Small- and medium-sized enterprise loans	₩ 97,379	76.4%	₩106,015	75.3%	₩112,487	75.4%
Large corporate loans	30,002	23.6	34,686	24.7	36,665	24.6
Total	<u>₩127,381</u>	<u>100.0%</u>	<u>₩140,701</u>	<u>100.0%</u>	<u>₩149,152</u>	<u>100.0%</u>

On the deposit-taking side, we currently offer our corporate customers several types of corporate deposits. Our corporate deposit products can be divided into two general categories: (1) demand deposits that have no restrictions on deposits or withdrawals, but which offer a relatively low interest rate; and (2) deposits from which withdrawals are restricted for a period of time, but offer higher interest rates. We also offer installment savings deposits, certificates of deposit and repurchase instruments. We offer varying interest rates on deposit products depending upon the rate of return on our income-earning assets, average funding costs and interest rates offered by other nationwide commercial banks.

The total amount of deposits from our corporate customers amounted to ₩113,817 billion as of December 31, 2019, or 37.2% of our total deposits.

Small- and Medium-sized Enterprise Banking

Our small- and medium-sized enterprise banking business has traditionally been and will remain one of our core businesses because of both our historical development and our accumulated expertise. We believe that we possess the necessary elements to succeed in the small- and medium-sized enterprise market, including our extensive branch network, our credit rating system for credit approval, our marketing capabilities (which we believe have provided us with significant brand loyalty) and our ability to take advantage of economies of scale.

We use the term “small- and medium-sized enterprises” as defined in the Framework Act on Small and Medium Enterprises and related regulations. Under the Framework Act on Small and Medium Enterprises and related regulations, an enterprise must meet each of the following criteria in order to meet the definition of a small- and medium-sized enterprise: (i) total assets at the end of the immediately preceding fiscal year must be less than ₩500 billion, (ii) the average or annual sales revenue standards as prescribed by the Enforcement Decree of the Framework Act on Small and Medium Enterprises that are applicable to the enterprise’s primary business must be met and (iii) the standards of management independence as prescribed by the Enforcement Decree of the Framework Act on Small and Medium Enterprises must be met. However, pursuant to an amendment to the Framework Act on Small and Medium Enterprises, which will become effective in June 2020, an enterprise that qualifies as a small- and medium-sized enterprise pursuant to the above definition shall no longer be considered a small- and medium-sized enterprise if it is incorporated into, or is deemed to be incorporated into, a business group subject to certain disclosure requirements under the Monopoly Regulation and Fair Trade Act. Moreover, certified social enterprises (as defined in the Social Enterprise Promotion Act) and cooperatives and federations of cooperatives (each as defined in the Framework Act on Cooperatives and the Consumer Cooperatives Act) that satisfy the requirements prescribed by the Framework Act on Small and Medium Enterprises may also qualify as small- and medium-sized enterprises.

Lending Activities

Our principal loan products for our small- and medium-sized enterprise customers are working capital loans and facilities loans. Working capital loans are provided to finance working capital requirements and include notes discounted and trade financing. Facilities loans are provided to finance the purchase of equipment and the establishment of manufacturing assembly plants. As of December 31, 2019, working capital loans and facilities loans accounted for 47.5% and 52.5%, respectively, of our total small- and medium-sized enterprise loans. As of December 31, 2019, we had 311,465 small- and medium-sized enterprise customers on the lending side.

Loans to small- and medium-sized enterprises may be secured by real estate or deposits or may be unsecured. As of December 31, 2019, secured loans and guaranteed loans accounted for, in the aggregate, 86.3% of our small- and medium-sized enterprise loans. Among the secured loans, 96.0% were secured by real estate and 4.0% were secured by deposits or securities. Working capital loans generally have a maturity of one year, but may be extended for additional terms of up to one year in length for an aggregate term of five years. Facilities loans have a maximum maturity of 15 years.

When evaluating the extension of working capital loans, we review the corporate customer’s creditworthiness and capability to generate cash. Furthermore, we take credit guaranty letters from other financial institutions and use time deposits that the borrower has with us as collateral, and may require additional collateral.

The value of any collateral is defined using a formula that takes into account the appraised value of the property, any prior liens or other claims against the property and an adjustment factor based on a number of considerations including, with respect to property, the value of any nearby property sold in a court-supervised auction during the previous five years. We revalue any collateral on a periodic basis (generally every year) or if a trigger event occurs with respect to the loan in question.

We also offer mortgage loans to home builders or developers who build or sell single- or multi-family housing units, principally apartment buildings. Many of these builders and developers are categorized as small- and medium-sized enterprises. We offer a variety of such mortgage loans, including loans to purchase property or finance the construction of housing units and loans to contractors used for working capital purposes. Such mortgage loans subject us to the risk that the housing units will not be sold. As a result, we review the probability of the sale of the housing unit when evaluating the extension of a loan. We also review the borrower's creditworthiness and the adequacy of the intended use of proceeds. Furthermore, we take a lien on the land on which the housing unit is to be constructed as collateral. If the collateral is not sufficient to cover the loan, we also take a guarantee from the Housing Finance Credit Guarantee Fund as security.

A substantial number of our small- and medium-sized enterprise customers are SOHOs, which we currently define to include sole proprietorships and individual business interests. With respect to SOHOs, we apply credit risk evaluation models, which not only use quantitative analysis related to a customer's accounts, personal credit and financial information and due amounts but also require our credit officers to perform a qualitative analysis of each potential SOHO customer. With respect to SOHO loans in excess of ₩1 billion, our credit risk evaluation model also includes a quantitative analysis of the financial statements of the underlying business. We generally lend to SOHOs on a secured basis, although a small portion of our SOHO exposures are unsecured.

Pricing

We establish the price for our corporate loan products based principally on transaction risk, our cost of funding and market considerations. Transaction risk is measured by such factors as the credit rating assigned to a particular borrower, the size of the borrower and the value and type of collateral. Our loans are priced based on the Market Opportunity Rate system, which is a periodic floating rate system that takes into account the current market interest rate. For the Market Opportunity Rate as of December 31, 2019, see “—Retail Banking—Lending Activities—Mortgage and Home Equity Lending—Pricing.”

While we generally utilize the Market Opportunity Rate system, depending on the price and other terms set by competing banks for similar borrowers, we may adjust the interest rate we charge to compete more effectively with other banks.

Large Corporate Banking

Large corporate customers include all companies that are not small- and medium-sized enterprise customers. Kookmin Bank's articles of incorporation provide that financial services to large corporate customers must be no more than 40% of the total amount of our Won-denominated loans. Our business focus with respect to large corporate banking is to selectively increase the proportion of high quality large corporate customers. Specifically, we are carrying out various initiatives to improve our customer relationship with large corporate customers and have been seeking to expand our service offerings to this segment.

Lending Activities

Our principal loan products for our large corporate customers are working capital loans and facilities loans. As of December 31, 2019, working capital loans and facilities loans accounted for 77.7% and 22.3%, respectively, of our total large corporate loans. We also offer mortgage loans to large corporate clients who build or sell single- or multi-family housing units, as described above under “—Small- and Medium-sized Enterprise Banking—Lending Activities.”

As of December 31, 2019, secured loans and guaranteed loans accounted for, in the aggregate, 29.8% of our large corporate loans. Among the secured loans, 71.7% were secured by real estate and 28.3% were secured by deposits or securities. Working capital loans generally have a maturity of one year, but may be extended for additional terms ranging from three months to one year in length for an aggregate term of five years. Facilities loans have a maximum maturity of 15 years.

In our unsecured lending to large corporate customers, a critical consideration in our policy regarding the extension of such unsecured loans is the borrower's creditworthiness. We assign each borrower a credit rating based on the judgment of our experts or scores calculated using the appropriate credit rating system, taking into account both financial factors and non-financial factors (such as our perception of a borrower's reliability, management and operational risk and risk relating to the borrower's industry). The credit ratings, along with such factors, are key determinants in our lending to large corporate customers. Large corporate customers generally have higher credit ratings due to their higher repayment capability compared to other types of borrowers, such as small- and medium-sized enterprise borrowers. In addition, large corporate borrowers generally are affected to a lesser extent than small- and medium-sized enterprise borrowers by fluctuations in the Korean economy and also maintain more sophisticated financial records. As of December 31, 2019, 87.1% of our large corporate customers had credit ratings of BBB- or above according to the internal credit rating system of Kookmin Bank, compared to 77.1% of our small- and medium-sized enterprise customers. A credit rating of BBB- is assigned to customers whose ability to repay the principal and interest on their outstanding loans is determined by us to be generally satisfactory but nonetheless subject to adverse effects under unfavorable economic conditions or during downturns in the business environment. Based on our internal analysis of historical data, we believe that the probability of default for loans extended to large corporate customers with a credit rating of BBB- or above is between 0.00% and 2.26%.

We monitor the credit status of large corporate borrowers and collect information to adjust our ratings appropriately. We also manage and monitor our large corporate customers through a dedicated Corporate Banking Branch and Kookmin Bank's Large Corporate Business Department. In addition, Kookmin Bank's Credit Risk Department manages the exposures to each large corporate customer and conducts in-depth analysis of various economic and industry-related risks that are relevant to large corporate customers.

As of December 31, 2019, in terms of our outstanding loan balance, 33.8% was extended to borrowers in the financial industry, 28.0% of our large corporate loans was extended to borrowers in the manufacturing industry, and 20.3% was extended to borrowers in the service industry.

Pricing

We determine pricing of our large corporate loans in the same way as we determine the pricing of our small- and medium-sized enterprise loans. See “—Small- and Medium-sized Enterprise Banking—Pricing” above. As of December 31, 2019, the Market Opportunity Rate, which is utilized in pricing loans offered by us, was the same for our large corporate loans as for our small- and medium-sized enterprise loans.

Capital Markets Activities and International Banking/Finance

Through our capital markets operations, we invest and trade in debt and equity securities and, to a lesser extent, engage in derivatives and asset securitization transactions and make call loans. We also provide investment banking and securities brokerage services.

Securities Investment and Trading

We invest in and trade securities for our own account in order to maintain adequate sources of liquidity and to generate interest and dividend income and capital gains. As of December 31, 2017, 2018 and 2019, our investment portfolio, which consists primarily of financial assets at amortized cost and financial assets at fair value through other comprehensive income (formerly referred to as held-to-maturity financial assets and available-for-sale financial assets, respectively) and our trading portfolio had a combined total carrying amount of ₩99,171 billion, ₩111,434 billion and ₩124,913 billion (including the investment and trading portfolios of our insurance operations) and represented 22.7%, 23.2% and 24.1% of our total assets, respectively.

Our trading and investment portfolios consist primarily of Korean treasury securities and debt securities issued by Korean government agencies, local governments or certain government-invested enterprises and debt securities issued by financial institutions. As of December 31, 2017, 2018 and 2019, we held debt securities with a total carrying amount of ₩82,989 billion, ₩107,192 billion and ₩119,627 billion, respectively, of which:

- financial assets at amortized cost (or held-to-maturity debt securities) accounted for ₩18,492 billion, ₩23,663 billion and ₩25,348 billion, or 22.3%, 22.1% and 21.2%, respectively;
- debt securities at fair value through other comprehensive income (or available-for-sale debt securities) accounted for ₩38,959 billion, ₩35,244 billion and ₩43,557 billion, or 46.9%, 32.9% and 36.4%, respectively; and
- debt securities at fair value through profit or loss accounted for ₩25,538 billion, ₩48,285 billion and ₩50,722 billion, or 30.8%, 45.0% and 42.4%, respectively.

Of these amounts, debt securities issued by the Korean government and government agencies as of December 31, 2017, 2018 and 2019 amounted to:

- ₩5,448 billion, ₩5,090 billion and ₩5,396 billion, or 29.5%, 21.5% and 21.3%, respectively, of our financial assets at amortized cost (or held-to-maturity debt securities);
- ₩3,629 billion, ₩3,475 billion and ₩9,502 billion, or 9.3%, 9.9% and 21.8%, respectively, of our financial assets at fair value through other comprehensive income (or available-for-sale debt securities); and
- ₩6,233 billion, ₩7,923 billion and ₩6,569 billion, or 24.4%, 16.4% and 13.0%, respectively, of our debt securities at fair value through profit or loss.

From time to time we also purchase equity securities for our securities portfolios. Our equity securities consist primarily of marketable beneficiary certificates and equities listed on the KRX KOSPI Market, the KRX KOSDAQ Market or the KRX KONEX Market. As of December 31, 2017, 2018 and 2019:

- equity securities at fair value through other comprehensive income (or available-for-sale equity securities) had a carrying amount of ₩9,157 billion, ₩2,370 billion and ₩2,504 billion, or 19.0%, 6.3% and 5.4%, respectively, of our securities at fair value through other comprehensive income (or available-for-sale securities) portfolio; and
- equity securities at fair value through profit or loss had a carrying amount of ₩5,003 billion, ₩1,288 billion and ₩2,104 billion, or 15.5%, 2.6% and 4.0%, respectively, of our securities at fair value through profit or loss portfolio.

Our trading portfolio also includes derivative-linked securities, the underlying assets of which were linked to, among other things, interest rates, exchange rates, stock price indices or credit risks. As of December 31, 2017, 2018 and 2019, derivative-linked securities in our trading portfolio had a carrying amount of ₩1,613 billion, ₩3,517 billion and ₩3,624 billion, or 5.0%, 7.1% and 6.8% of our trading portfolio, respectively. See “—Derivatives Trading.”

The following tables show, as of the dates indicated, the unrealized gains and losses on financial assets at fair value through other comprehensive income (or available-for-sale financial assets) and financial assets at amortized cost (or held-to-maturity financial assets) within our investment portfolio, and the amortized cost and fair value of the portfolio by type of financial asset:

As of December 31, 2017				
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
(in billions of Won)				
Available-for-sale financial assets:				
Debt securities				
Korean treasury securities and government agencies . . .	₩ 3,640	₩ 7	₩ 18	₩ 3,629
Financial institutions ⁽¹⁾	21,001	13	68	20,946
Corporate ⁽²⁾	10,593	36	58	10,571
Asset-backed securities ⁽³⁾	2,408	2	8	2,402
Others	1,446	2	37	1,411
Subtotal	39,088	60	189	38,959
Equity securities	7,775	1,477	95	9,157
Total available-for-sale financial assets	<u>₩46,863</u>	<u>₩1,537</u>	<u>₩284</u>	<u>₩48,116</u>
Held-to-maturity financial assets:				
Korean treasury securities and government agencies . . .	₩ 5,448	₩ —	₩ 16	₩ 5,432
Financial institutions ⁽⁴⁾	2,475	15	—	2,490
Corporate ⁽⁵⁾	6,219	—	4	6,215
Asset-backed securities ⁽⁶⁾	4,306	—	3	4,303
Others	44	—	1	43
Total held-to-maturity financial assets	<u>₩18,492</u>	<u>₩ 15</u>	<u>₩ 24</u>	<u>₩18,483</u>
As of December 31, 2018				
	Amortized Cost ⁽⁷⁾	Net Unrealized Gain and Loss ⁽⁸⁾	Loss Allowance for Expected Credit Losses ⁽⁹⁾	Fair Value
(in billions of Won)				
Financial assets at fair value through other comprehensive income:				
Debt securities				
Korean treasury securities and government agencies . . .	₩ 3,471	₩ 4	₩—	₩ 3,475
Financial institutions ⁽¹⁾	20,102	7	1	20,108
Corporate ⁽²⁾	10,488	56	3	10,541
Asset-backed securities ⁽³⁾	1,096	4	—	1,100
Others	20	—	—	20
Subtotal	35,177	71	4	35,244
Equity securities	1,763	607	—	2,370
Total financial assets at fair value through other comprehensive income	<u>₩36,940</u>	<u>₩678</u>	<u>₩ 4</u>	<u>₩37,614</u>
Financial assets at amortized cost:				
Korean treasury securities and government agencies . . .	₩ 5,090	₩362	₩—	₩ 5,452
Financial institutions ⁽⁴⁾	6,847	(50)	—	6,797
Corporate ⁽⁵⁾	6,943	150	—	7,093
Asset-backed securities ⁽⁶⁾	4,783	35	1	4,817
Total financial assets at amortized cost	<u>₩23,663</u>	<u>₩497</u>	<u>₩ 1</u>	<u>₩24,159</u>

	As of December 31, 2019			
	Amortized Cost ⁽⁷⁾	Net Unrealized Gain and Loss ⁽⁸⁾	Loss Allowance for Expected Credit Losses ⁽⁹⁾	Fair Value
(in billions of Won)				
Financial assets at fair value through other comprehensive income:				
Debt securities				
Korean treasury securities and government agencies . . .	₩ 9,538	₩ (35)	₩ 1	₩ 9,502
Financial institutions ⁽¹⁾	20,870	44	1	20,913
Corporate ⁽²⁾	12,205	87	2	12,290
Asset-backed securities ⁽³⁾	826	6	—	832
Others	20	—	—	20
Subtotal	43,459	102	4	43,557
Equity securities	1,991	513	—	2,504
Total financial assets at fair value through other comprehensive income	₩45,450	₩ 615	₩ 4	₩46,061
Financial assets at amortized cost:				
Korean treasury securities and government agencies . . .	₩ 5,396	₩ 650	₩—	₩ 6,046
Financial institutions ⁽⁴⁾	8,157	26	—	8,183
Corporate ⁽⁵⁾	7,537	504	—	8,041
Asset-backed securities ⁽⁶⁾	4,258	46	1	4,303
Total financial assets at amortized cost	₩25,348	₩1,226	₩ 1	₩26,573

- (1) Includes debt securities issued by the Bank of Korea, the Korea Development Bank, Korea Housing Finance Corporation, Industrial Bank of Korea and the Export-Import Bank of Korea in the aggregate amount of ₩15,834 billion as of December 31, 2017, ₩15,795 billion as of December 31, 2018 and ₩16,040 billion as of December 31, 2019. These financial institutions are owned or controlled by the Korean government.
- (2) Includes debt securities issued by Korea Housing Finance Corporation, the Korea Deposit Insurance Corporation, Korea Land & Housing Corporation and the Korea SMEs and Startups Agency in the aggregate amount of ₩2,254 billion as of December 31, 2017, ₩1,857 billion as of December 31, 2018 and ₩2,536 billion as of December 31, 2019. These entities are owned or controlled by the Korean government.
- (3) Includes mortgage-backed securities issued by Korea Housing Finance Corporation, which have residential mortgage loans as underlying assets, in the amount of ₩2,277 billion as of December 31, 2017, ₩1,016 billion as of December 31, 2018 and ₩750 billion as of December 31, 2019. Korea Housing Finance Corporation is controlled by the Korean government.
- (4) Includes debt securities issued by the Bank of Korea, the Korea Development Bank, Industrial Bank of Korea and the Export-Import Bank of Korea in the aggregate amount of ₩1,055 billion as of December 31, 2017, ₩5,512 billion as of December 31, 2018 and ₩6,736 billion as of December 31, 2019. These financial institutions are owned or controlled by the Korean government.
- (5) Includes debt securities issued by Korea Housing Finance Corporation, the Korea Deposit Insurance Corporation, Korea Land & Housing Corporation and the Korea SMEs and Startups Agency in the aggregate amount of ₩1,616 billion as of December 31, 2017, ₩1,815 billion as of December 31, 2018 and ₩2,271 billion as of December 31, 2019. These entities are owned or controlled by the Korean government.
- (6) Includes mortgage-backed securities issued by Korea Housing Finance Corporation, which have residential mortgage loans as underlying assets, in the amount of ₩4,205 billion as of December 31, 2017, ₩4,681 billion as of December 31, 2018 and ₩4,156 billion as of December 31, 2019. Korea Housing Finance Corporation is controlled by the Korean government.
- (7) Gross carrying amount before adjusting for loss allowance for expected credit losses in accordance with IFRS 9.
- (8) Net unrealized gain and loss after adjusting for loss allowance for expected credit losses in accordance with IFRS 9.
- (9) Loss allowance for expected credit losses in accordance with IFRS 9.

Derivatives Trading

We engage in derivatives trading, including on behalf of our customers. Our trading volume increased from ₩324,786 billion in 2017 to ₩376,249 billion in 2018 and ₩449,590 billion in 2019. Our net trading revenue (expense) from derivatives for the year ended December 31, 2017, 2018 and 2019 was ₩906 billion, ₩(284) billion and ₩1,116 billion, respectively.

We provide and trade a range of derivatives products, including:

- interest rate swaps and options, relating to interest rate risks;
- cross-currency swaps, forwards and options relating to foreign exchange risks; and
- stock price index options linked to the KOSPI index.

Our derivatives operations focus on addressing the needs of our corporate clients to hedge their risk exposure and the need to hedge our risk exposure that results from such client contracts. We also engage in derivatives trading activities to hedge the interest rate and foreign currency risk exposures that arise from our own assets and liabilities. In addition, we engage in proprietary trading of derivatives within our regulated open position limits.

The following shows the estimated fair value of our derivatives as of December 31, 2017, 2018 and 2019:

	As of December 31,					
	2017		2018		2019	
	Estimated Fair Value Assets	Estimated Fair Value Liabilities	Estimated Fair Value Assets	Estimated Fair Value Liabilities	Estimated Fair Value Assets	Estimated Fair Value Liabilities
	(in billions of Won)					
Foreign exchange derivatives ⁽¹⁾	₩2,361	₩2,036	₩1,133	₩1,090	₩1,604	₩1,482
Interest rate derivatives ⁽¹⁾	641	689	659	908	914	1,079
Equity derivatives	233	373	158	796	570	283
Credit derivatives	42	37	33	25	19	14
Commodity derivatives	4	—	2	3	3	—
Others ⁽¹⁾	29	8	41	79	81	149
Total	<u>₩3,310</u>	<u>₩3,143</u>	<u>₩2,026</u>	<u>₩2,901</u>	<u>₩3,191</u>	<u>₩3,007</u>

⁽¹⁾ Includes those for trading purposes and hedging purposes.

The following table shows certain information related to our derivatives designated as fair value hedges for the years ended December 31, 2017, 2018 and 2019:

	Year Ended December 31,								
	2017			2018			2019		
	Derivatives	Effective Portion	Ineffective Portion	Derivatives	Effective Portion	Ineffective Portion	Derivatives	Effective Portion	Ineffective Portion
	(in billions of Won)								
Foreign exchange derivatives ⁽¹⁾	₩78	₩(41)	₩37	₩(119)	₩ 98	₩(21)	₩(74)	₩ 61	₩(13)
Interest rate derivatives	15	(15)	—	(41)	37	(4)	108	(105)	3
Other derivatives	—	—	—	—	—	—	—	—	—
Total	<u>₩93</u>	<u>₩(56)</u>	<u>₩37</u>	<u>₩(160)</u>	<u>₩135</u>	<u>₩(25)</u>	<u>₩ 34</u>	<u>₩ (44)</u>	<u>₩(10)</u>

The following table shows certain information related to our derivatives designated as cash flow hedges for the years ended December 31, 2017, 2018 and 2019:

	Year Ended December 31,								
	2017			2018			2019		
	Derivatives	Effective Portion	Ineffective Portion	Derivatives	Effective Portion	Ineffective Portion	Derivatives	Effective Portion	Ineffective Portion
	(in billions of Won)								
Foreign exchange derivatives	₩(133)	₩(121)	₩(12)	₩(17)	₩(19)	₩ 2	₩(39)	₩(40)	₩ 1
Interest rate derivatives	20	20	—	(6)	(6)	—	(26)	(25)	(1)
Total	₩(113)	₩(101)	₩(12)	₩(23)	₩(25)	₩ 2	₩(65)	₩(65)	₩—

Asset Securitization Transactions

We are active in the Korean asset-backed securities market. Based on our diverse experience with respect to product development and management capabilities relating to asset securitization, we offer customers a wide range of financial products and participate in various asset securitization transactions, including through our subsidiary KB Securities, to reinforce our position as a leading financial services provider with respect to the asset securitization market. We were involved in asset securitization transactions with an initial aggregate issue amount of ₩9,724 billion in 2017, ₩7,791 billion in 2018 and ₩8,092 billion in 2019, a significant portion of which were public offerings of asset-backed securities.

Call Loans

We make call loans and borrow call money in the short-term money market. Call loans are defined as short-term lending among banks and financial institutions either in Won or in foreign currencies with maturities of 90 days or less. Typically, call loans have maturities of one day. As of December 31, 2019, we had made call loans of ₩3,118 billion and borrowed call money of ₩433 billion, compared to ₩4,064 billion and ₩1,081 billion, respectively, as of December 31, 2018 and ₩3,579 billion and ₩1,299 billion, respectively, as of December 31, 2017.

Investment Banking

We have focused on selectively expanding our investment banking activities in order to increase our fee income and diversify our revenue base. We provide investment banking services primarily through KB Securities and Kookmin Bank. Our principal investment banking services include:

- securities underwriting;
- financing and financial advisory services for mergers and acquisitions;
- project finance and financial advisory services for social overhead capital projects such as highway, port, power, water and sewage projects;
- financing and financial advisory services for real estate development projects; and
- structured finance.

In May 2016, we acquired 22.56% of the outstanding shares of Hyundai Securities Co., Ltd., a publicly listed Korean securities firm, and further increased our shareholding in Hyundai Securities to 29.62% in June 2016 by acquiring treasury shares of Hyundai Securities. In October 2016, we effected a comprehensive stock swap of the outstanding shares of Hyundai Securities for newly issued shares of our company, as a result of which Hyundai Securities became a wholly-owned subsidiary. Following such transaction, we merged our existing subsidiary, KB Investment & Securities, with and into Hyundai Securities in December 2016 and

changed the name of the surviving entity to KB Securities. Through the acquisition of Hyundai Securities and the creation of an integrated securities firm, we sought to strengthen our investment banking and securities brokerage capabilities, as well as to achieve economies of scale.

In 2019, we generated investment banking revenues of ₩620 billion, consisting of ₩99 billion of interest income, ₩460 billion of fee income and ₩61 billion of other income.

Securities Brokerage

We provide securities brokerage services through KB Securities. Our activities include provision of brokerage services to our retail and corporate customers relating to a wide range of investment products, including stocks, futures, options, equity- and derivative-linked securities and debt instruments, as well as provision of prime brokerage services to hedge funds. In addition, we offer self-directed brokerage services through KB Securities' online and smartphone brokerage platforms.

As of December 31, 2019, KB Securities operated a brokerage network consisting of 112 branches and sub-branches in Korea. In 2019, KB Securities generated commission income of ₩255 billion through its securities brokerage activities.

International Banking and Finance

We engage in various international banking and finance activities, including foreign exchange services and derivatives dealing, import and export-related services, offshore lending, syndicated loans, foreign currency securities investment and non-life insurance. These services are provided primarily to our domestic customers and overseas subsidiaries and affiliates of Korean corporations and, to a limited extent, to local companies and individuals. We also raise foreign currency funds through our international banking and finance operations.

The table below sets forth certain information regarding our foreign currency assets and borrowings:

	As of December 31,		
	2017	2018	2019
	(in millions of US\$)		
Total foreign currency assets	US\$31,847	US\$33,213	US\$36,927
Foreign currency borrowings:			
Debts	7,254	9,077	9,188
Debentures	3,459	4,228	4,626
Total borrowings	<u>US\$10,713</u>	<u>US\$13,305</u>	<u>US\$13,814</u>

The table below sets forth our overseas subsidiaries, branches and representative and liaison offices in operation as of December 31, 2019:

Business Unit ⁽¹⁾	Location
Subsidiaries	
Kookmin Bank Cambodia PLC	Cambodia
Kookmin Bank (China) Ltd.	China
KBFG Securities America Inc.	United States
KB Securities Hong Kong Ltd.	Hong Kong
KB Securities Vietnam Joint Stock Company	Vietnam
KB Asset Management Singapore Pte. Ltd.	Singapore
KB Microfinance Myanmar Co., Ltd.	Myanmar
Leading Insurance Services, Inc.	United States
LIG Insurance (China) Co., Ltd.	China
PT. KB Insurance Indonesia	Indonesia
KB Daehan Specialized Bank Plc.	Cambodia

KB KOLAO Leasing Co., Ltd.	Laos
KBAM Shanghai Advisory Services Co., Ltd.	China
Branches	
Kookmin Bank (China) Ltd., Beijing Branch	China
Kookmin Bank (China) Ltd., Guangzhou Branch	China
Kookmin Bank (China) Ltd., Harbin Branch	China
Kookmin Bank (China) Ltd., Shanghai Branch	China
Kookmin Bank (China) Ltd., Suzhou Branch	China
Kookmin Bank, Tokyo Branch	Japan
Kookmin Bank, Auckland Branch	New Zealand
Kookmin Bank, New York Branch	United States
Kookmin Bank, London Branch	United Kingdom
Kookmin Bank, Ho Chi Minh City Branch	Vietnam
Kookmin Bank, Hanoi Branch	Vietnam
Kookmin Bank, Hong Kong Branch	Hong Kong
Kookmin Bank, Gurugram Branch	India
Kookmin Bank Cambodia PLC, Toul Kork Branch	Cambodia
Kookmin Bank Cambodia PLC, Toul Tompong Branch	Cambodia
Kookmin Bank Cambodia PLC, Tuek Thla Branch	Cambodia
Kookmin Bank Cambodia PLC, Stueng Meanchey Branch	Cambodia
Kookmin Bank Cambodia PLC, Chbar Ampov Branch	Cambodia
KB Microfinance Myanmar Co., Ltd., Hlaingtharya Branch	Myanmar
KB Microfinance Myanmar Co., Ltd., Shwepyithar Branch	Myanmar
KB Microfinance Myanmar Co., Ltd., Thanlyin Branch	Myanmar
KB Microfinance Myanmar Co., Ltd., Pyinmana Branch	Myanmar
KB Microfinance Myanmar Co., Ltd., Twantay Branch	Myanmar
KB Microfinance Myanmar Co., Ltd., Magway Branch	Myanmar
KB Microfinance Myanmar Co., Ltd., Thaketa Branch	Myanmar
KB Microfinance Myanmar Co., Ltd., Chanmyatharzi Branch	Myanmar
KB Microfinance Myanmar Co., Ltd., Pakkokku Branch	Myanmar
KB Microfinance Myanmar Co., Ltd., Lewe Branch	Myanmar
KB Microfinance Myanmar Co., Ltd., Kyaukse Branch	Myanmar
KB Microfinance Myanmar Co., Ltd., Tatkon Branch	Myanmar
KB Microfinance Myanmar Co., Ltd., Salin Branch	Myanmar
KB Microfinance Myanmar Co., Ltd., Singu Branch	Myanmar
KB Microfinance Myanmar Co., Ltd., Monywa Branch	Myanmar
KB Microfinance Myanmar Co., Ltd., Shwebo Branch	Myanmar
KB Securities Vietnam Joint Stock Company, Hanoi Branch	Vietnam
KB Securities Vietnam Joint Stock Company, Ho Chi Minh City Branch	Vietnam
KB Securities Vietnam Joint Stock Company, Saigon Branch	Vietnam
Kookmin Best Insurance Co., Ltd. U.S. Branch	United States
LIG Insurance (China) Co., Ltd., Guangzhou Branch	China
PT. KB Insurance Indonesia Kebon Jeruk Branch	Indonesia
PT. KB Insurance Indonesia Jayakarta Branch	Indonesia
Representative and Liaison Offices	
Kookmin Bank, Yangon Representative Office	Myanmar
KB Securities Shanghai Representative Office	China
KB Kookmin Card, Yangon Representative Office	Myanmar
KB Insurance, Los Angeles Liaison Office	United States
KB Insurance, Hanoi Liaison Office	Vietnam
KB Insurance, Ho Chi Minh City Liaison Office	Vietnam
KB Asset Management, Ho Chi Minh City Representative Office	Vietnam

(1) Does not include subsidiaries and branches in liquidation or dissolution.

Trustee and Custodian Services Relating to Investment Trusts and Other Functions

We act as a trustee for 105 financial investment companies with a collective investment license, which invest in investment assets using funds raised by the sale of beneficiary certificates of investment trusts to investors. We also act as custodian for 185 financial institutions and as fund administrator for 112 financial institutions with respect to various investments, as well as acting as settlement agent in connection with such services. We receive a fee for acting in these capacities and generally perform the following functions:

- holding assets for the benefit of the investment trusts or institutional investors;
- receiving and making payments in respect of such investments;
- acting as settlement agent in respect of such investments on behalf of the investment trust or institutional investors, in the domestic and overseas markets;
- providing reports on assets held in custody;
- providing certain foreign exchange services for overseas investment and foreign investors; and
- providing fund-related administration and accounting services.

For the year ended December 31, 2019, our fee income from our trustee and custodian services was ₩32 billion and revenue collected as a result of administration of the underlying investments was ₩11 billion.

Other Businesses

Trust Account Management Services

Money Trust Management Services

We provide trust account management services for both specified money trusts and unspecified money trusts. We receive fees for our trust account management services consisting of basic fees that are based upon a percentage of either the net asset value of the assets or the principal under management and, for certain types of trust account operations, performance fees that are based upon the performance of the trust account operations. In 2019, our basic money trust fees ranged from 0.1% to 2.0% of total assets under management depending on the type of trust account. We also charge performance fees with respect to certain types of trust account products. We receive penalty payments when customers terminate their trust accounts prior to the original contract maturity.

We currently provide trust account management services for 20 types of money trusts. The maturities of the money trusts we manage vary by the type of the trust. Approximately 3.9% of our money trusts also provide periodic payments of dividends which are added to the assets held in such trusts and not distributed.

Under Korean law, the assets of our trust accounts are segregated from our banking account assets and are not available to satisfy the claims of any of our potential creditors. We are, however, permitted to deposit surplus funds generated by trust assets into our banking accounts in certain circumstances as set forth under the Financial Investment Services and Capital Markets Act and the regulations thereunder.

As of December 31, 2019, the total balance of our money trusts was ₩49,065 billion (as calculated in accordance with Statement of Korea Accounting Standard No. 5004, *Trust Accounts*, and the Enforcement Regulations of Financial Investment Services under the Financial Investment Services and Capital Markets Act, which we refer to as an “SKAS basis”). As for unspecified money trust accounts, we have investment discretion over all money trusts, which are pooled and managed jointly for each type of trust account. Specified money trust accounts are established on behalf of individual customers who direct our investment of trust assets.

The following table shows the balances of our money trusts by type as of the dates indicated. Under IFRS, we consolidate trust accounts for which we guarantee both the repayment of the principal amount and a fixed rate of interest as well as trust accounts for which we guarantee only the repayment of the principal amount.

	As of December 31,		
	2017	2018	2019
	(in billions of Won)		
Principal and interest guaranteed trusts ⁽¹⁾	₩ 0.1	₩ 0.1	₩ 0.1
Principal guaranteed trusts ⁽¹⁾	3,694	3,783	3,875
Performance trusts ⁽¹⁾⁽²⁾	35,060	43,629	45,190
Total	<u>₩38,754</u>	<u>₩47,412</u>	<u>₩49,065</u>

⁽¹⁾ Calculated on an SKAS basis.

⁽²⁾ Trusts which are primarily non-guaranteed.

The balance of our money trusts increased 26.6% between December 31, 2017 and December 31, 2019. As of December 31, 2019, the trust assets we managed consisted principally of securities investments and loans from the trust accounts. As of December 31, 2019, on an SKAS basis, our trust accounts had invested in securities in the aggregate amount of ₩24,171 billion, of which ₩19,129 billion was debt securities and derivative-linked securities. Securities investments consist of government-related debt securities, corporate debt securities, including bonds and commercial paper, equity securities, derivative-linked securities and other securities. Loans made by our trust account operations are similar in type to the loans made by our bank account operations. As of December 31, 2019, on an SKAS basis, our trust accounts had made loans in the principal amount of ₩203 billion (excluding loans from the trust accounts to our banking accounts of ₩1,364 billion), which accounted for 0.4% of our money trust assets. Loans by our money trusts are subject to the same credit approval process as loans from our banking accounts. As of December 31, 2019, substantially all loans from our money trust accounts were collateralized or guaranteed.

Our money trust accounts also invest, to a lesser extent, in equity securities, including beneficiary certificates issued by financial investment companies with a collective investment license. On an SKAS basis, as of December 31, 2019, equity securities in our money trust accounts amounted to ₩5,042 billion, which accounted for 10.0% of our total money trust assets. Of this amount, ₩4,904 billion was from specified money trusts and ₩138 billion was from unspecified money trusts.

We continue to offer pension-type money trusts that provide a guarantee of the principal amount of the investment. On an SKAS basis, as of December 31, 2019, the balance of the money trusts for which we guaranteed the principal was ₩3,865 billion.

If the income from a money trust for which we provide a guarantee is less than the amount of the payments we have guaranteed, we will need to pay the amount of the shortfall with funds from special reserves maintained with respect to trust accounts followed by basic fees from that money trust and funds from our general banking operations. In 2017, 2018 and 2019, we made no payment from our banking accounts to cover shortfalls in our guaranteed trusts. On an SKAS basis, we derived trust fees with regard to trust account management services (including those fees related to property trust management services) of ₩293 billion in 2017, ₩278 billion in 2018 and ₩294 billion in 2019.

Property Trust Management Services

We also offer property trust management services, where we manage non-monetary assets in return for a fee. Non-monetary assets include mostly securities, but can also include other liquid receivables and real estate. Under these arrangements, we render custodial services for the property in question and collect fee income in return.

In 2019, our basic property trust fees ranged from 0.001% to 0.3% of total assets under management depending on the type of trust accounts. On an SKAS basis, as of December 31, 2019, the aggregate balance of our property trusts was ₩5,846 billion, compared to ₩3,506 billion as of December 31, 2018 and ₩7,769 billion as of December 31, 2017.

Under IFRS, the property trusts are not consolidated within our financial statements.

Investment Trust Management

Through KB Asset Management and KB Securities, we offer investment trust products to customers and manage the funds invested by them in investment trusts. As of December 31, 2019, KB Asset Management and KB Securities had an aggregate of ₩52,275 billion of investment trust assets under management.

Insurance

Non-Life Insurance

In June 2015, we acquired a 19.47% stake in KB Insurance Co., Ltd. (formerly named LIG Insurance Co., Ltd.), a publicly listed Korean non-life insurance company. In November 2015 and December 2016, we increased our shareholding in KB Insurance to 33.29% and 39.81%, respectively. Through a tender offer conducted in May 2017, we acquired 36,237,649 shares of KB Insurance at ₩33,000 per share, increasing our shareholding to 94.30%. We subsequently effected a comprehensive stock swap in July 2017 to acquire the remaining shares of KB Insurance in exchange for 2,170,943 shares of common stock of our company, as a result of which KB Insurance became a wholly-owned subsidiary. KB Insurance offers a variety of non-life insurance products, including principally the following:

- *Long-term insurance products.* Long-term insurance products are sold to retail customers and provide protection against various types of losses, with specified coverage periods of at least three years and ranging up to 30 years or ending at specified ages. Unlike general property and casualty insurance products, which usually have a coverage period of one year or less and only have pure protection features, substantially all long-term insurance policies in Korea also have an integrated savings feature. KB Insurance offers a broad range of long-term insurance products covering the policyholder's injuries, illnesses, long-term care, disabilities, accidents, property losses or other events.
- *Automobile insurance products.* Automobile insurance products are sold to both retail and institutional customers and generally provide coverage for the following types of losses resulting from the policyholder's ownership or use of an insured automobile: (i) liability to third parties for bodily injuries or death as well as damage to automobiles or other personal property; and (ii) the policyholder's own bodily injuries and automobile damage or theft. KB Insurance's automobile insurance policies typically have a coverage period of one year or less.
- *General property and casualty insurance products.* General property and casualty insurance products are sold to institutional customers and include the following: (i) fire and allied lines insurance policies, providing protective coverage for damage to buildings and facilities and their contents against fire, flood, storm, lightning, explosion, theft and other risks; (ii) marine insurance policies, providing protective coverage for damage to marine vessels and their cargo; and (iii) specialty insurance policies, which cover various other types of specified risks faced by businesses, including liabilities and business interruption.

The following table sets forth certain information regarding the operations of KB Insurance, on a standalone basis, as of the dates or for the periods indicated:

	As of or for the Year Ended December 31,		
	2017	2018	2019
	(in billions of Won, except as otherwise indicated)		
Total policies in force (in thousands)	14,427	15,191	16,110
Number of new policies sold (in thousands)	8,965	9,373	9,881
Gross direct written premiums ⁽¹⁾	₩ 9,724	₩ 9,850	₩10,273
Long-term insurance	6,298	6,509	6,750
Automobile insurance	2,098	2,035	2,207
General property and casualty insurance	917	932	983
Other	411	375	333
Net earned premiums ⁽²⁾	₩ 8,795	₩ 8,944	₩ 9,191
Loss ratio ⁽³⁾	82.15%	84.06%	85.98%
Risk-based capital adequacy ratio ⁽⁴⁾	190.31%	187.09%	188.46%

(1) The amount of direct written premiums recognized in a specified period in respect of policies in force during such period, on a standalone basis.

(2) The sum of (i) gross direct written premiums for the specified period, (ii) reinsurance premium income for such period, (iii) return of surrender refunds for such period and (iv) total unearned premiums deferred from the previous period, less the sum of (x) reinsurance expenses for the specified period, (y) surrender refunds for such period and (z) total unearned premiums deferred to the next period, on a standalone basis.

(3) The ratio of (i) total claims paid for the specified period to (ii) net earned premiums for such period, on a standalone basis.

(4) Calculated in accordance with the applicable requirements of the Financial Supervisory Service. See “—Regulation and Supervision—Principal Regulations Applicable to Insurance Companies—Capital Adequacy.”

KB Insurance operates a multi-channel distribution platform in Korea, comprising agencies (which are independent insurance brokerage companies), a network of financial consultants, bancassurance arrangements with commercial banks and other financial institutions, direct marketing channels (including home shopping television networks and the Internet) and a corporate sales force.

As of December 31, 2019, KB Insurance had ₩28,984 billion of general account investment assets on a standalone basis, of which domestic debt securities, loans, beneficiary certificates, domestic equity securities and overseas securities accounted for 36.9%, 23.8%, 15.8%, 0.6% and 14.6%, respectively.

Life Insurance

Through KB Life Insurance Co., Ltd., we offer a variety of individual and group life insurance products, including annuities, savings insurance, variable life insurance, whole life insurance and term life insurance as well as health insurance. KB Life Insurance utilizes its multi-channel distribution platform to market these products, which includes sales through agencies, financial consultants, telemarketers and bancassurance arrangements with commercial banks and other financial institutions.

KB Life Insurance generated gross premiums (not including separate account premiums) of ₩971 billion in 2017, ₩877 billion in 2018 and ₩887 billion in 2019 on a standalone basis. As of December 31, 2019, KB Life Insurance had ₩7,723 billion of general account investment assets on a standalone basis, of which domestic debt securities, beneficiary certificates, loans, domestic equity securities and overseas securities accounted for 56.2%, 18.5%, 12.5%, 1.2% and 8.1%, respectively. As of such date, KB Life Insurance’s risk-based capital adequacy ratio was 214.43%.

For further information regarding our insurance-related assets and liabilities, see Note 37 of the notes to our consolidated financial statements included elsewhere in this annual report.

Most recently, in April 2020, we entered into a share purchase agreement to acquire all of the outstanding shares of The Prudential Life Insurance Company of Korea, Ltd., or Prudential Life Insurance, a provider of life insurance services in Korea, from Prudential Financial, Inc. for ₩2,265 billion, which amount is subject to change pending closing. The completion of such acquisition is subject to regulatory approvals and other closing conditions. We expect to strengthen our life insurance operations through the acquisition of Prudential Life Insurance, which we believe will enable us to become one of the leading life insurance providers in Korea.

Bancassurance

Through the bancassurance operations of Kookmin Bank, we offer insurance products of other institutions to retail customers in Korea. We currently market a wide range of bancassurance products and seek to generate additional fee-based revenues by expanding our offering of these products.

Currently, our bancassurance business has alliances with 22 life insurance companies (including our subsidiary, KB Life Insurance) and ten non-life insurance companies (including our subsidiary, KB Insurance) and offers 107 different products through our branch network. These products are composed of 73 types of life insurance policies, such as annuities, savings insurance and variable life insurance, and 34 types of non-life insurance products. In 2019, our commission income from our bancassurance business amounted to ₩66.3 billion.

Consumer Finance

We provide consumer finance services through KB Capital Co., Ltd. We acquired 52.02% of the outstanding shares of KB Capital (formerly known as Woori Financial Co., Ltd.) in March 2014 for ₩280 billion. We conducted a tender offer in May 2017, through which we acquired 5,949,300 shares of KB Capital at ₩27,500 per share, increasing our shareholding in KB Capital to 79.70%. We subsequently acquired the remaining outstanding shares of KB Capital in exchange for 2,269,057 shares of common stock of our company through a comprehensive stock swap effected in July 2017, as a result of which KB Capital became a wholly-owned subsidiary. KB Capital provides leasing services and installment finance services for various products, including automobiles, heavy machineries and medical equipment, as well as microlending services. We expect KB Capital to continue to expand our customer base by providing a variety of non-banking financial services to retail customers, as well as synergies through coordinated business operations with our other subsidiaries, including Kookmin Bank.

Management of the National Housing and Urban Fund

The National Housing and Urban Fund is a government fund that provides financial support to low-income households in Korea by providing mortgage financing and construction loans for projects to build small-sized housing. The operations of the National Housing and Urban Fund include providing and managing National Housing and Urban Fund loans, issuing National Housing and Urban Fund bonds and collecting subscription savings deposits.

In February 2013, the Ministry of Land, Infrastructure and Transport (formerly the Ministry of Land, Transport and Maritime Affairs) designated us as one of the managers of the National Housing and Urban Fund. In 2019, we received total fees of ₩32 billion for managing the National Housing and Urban Fund, compared to ₩33 billion in 2018 and ₩32 billion in 2017.

The financial accounting for the National Housing and Urban Fund is entirely separate from our financial accounting, and the non-performing loans and loan losses of the National Housing and Urban Fund, in general, do not impact our financial condition. Regulations and guidelines for managing the National Housing and Urban Fund are issued by the Minister of Land, Infrastructure and Transport pursuant to the Housing Act.

Distribution Channels

Banking Branch Network

As of December 31, 2019, Kookmin Bank operated a network of 1,051 branches and sub-branches in Korea, which was one of the largest branch networks among Korean commercial banks. An extensive branch network is important to attracting and maintaining retail customers, who use branches extensively and value convenience. We believe that our extensive branch network in Korea and retail customer base provide us with a source of stable and relatively low cost funding. Approximately 35.8% of our branches and sub-branches are located in Seoul, and approximately 23.4% of our branches are located in the six next largest cities. The following table presents the geographical distribution of our branch network in Korea as of December 31, 2019:

Area	Number of Branches	Percentage
Seoul	376	35.8%
Six largest cities (other than Seoul)	246	23.4
Other	429	40.8
Total	1,051	100.0%

In addition, we have continued to implement the specialization of our branch functions. Of our branch network as of December 31, 2019, we had three branches that primarily handled large corporate banking.

In order to support our branch network, we have established an extensive network of ATMs, which are located in branches and in unmanned outlets known as “autobanks.” As of December 31, 2019, we had 6,777 ATMs.

We have actively promoted the use of these distribution outlets in order to provide convenient service to customers, as well as to maximize the marketing and sales functions at the branch level, reduce employee costs and improve profitability. The aggregate number of transactions conducted using our ATMs amounted to approximately 460 million in 2017, 417 million in 2018 and 372 million in 2019.

Other Banking Channels

The following table sets forth information, for the periods indicated, on the number of users and transactions of the other banking channels for our retail and corporate banking customers, which are discussed below:

	For the Year Ended December 31,		
	2017	2018	2019
Internet banking:			
Number of users ⁽¹⁾	22,288,850	23,281,390	24,165,164
Number of transactions (thousands) ⁽²⁾	5,427,142	5,471,484	8,426,630
Phone banking:			
Number of users ⁽³⁾	5,020,272	5,046,634	5,063,703
Number of transactions (thousands) ⁽²⁾	119,059	104,163	93,112
Smartphone banking:			
Number of users ⁽⁴⁾	13,533,359	14,645,787	15,501,894
Number of transactions (thousands) ⁽²⁾	6,192,633	7,142,958	9,009,727

(1) Number of users is defined as the total cumulative number of retail and corporate customers who have registered through our branch offices to use our Internet banking services.

(2) Number of transactions includes balance and transaction inquiries, fund transfers and other transactions.

(3) Number of users is defined as the total cumulative number of retail and corporate customers who have registered through our branch offices to use our phone banking services.

(4) Number of users is defined as the total cumulative number of retail customers who have registered through our branch offices, or the customers’ smartphones, to use our smartphone banking services.

Internet Banking

Our goal is to consolidate our position as a market leader in online banking. Our Internet banking services currently include:

- basic banking services, including fund transfers, balance and transaction inquiries, pre-set automatic transfers, product inquiries, online bill and tax payments and foreign exchange services;
- investment services, including opening deposit accounts and investing in funds;
- processing of loan applications;
- electronic certification services, which permit our Internet banking service users to authenticate transactions on a confidential basis through digital signatures; and
- wealth management and advisory services, including financial planning and real estate information services.

Phone Banking

We offer a variety of phone banking services, including inter-account fund transfers, balance and transaction inquiries, customer service inquiries and bill payments. We also have call centers, which we primarily use to:

- advise clients with respect to deposits, loans and credit cards and to provide our customers a way to report any emergencies with respect to their accounts;
- allow our customers to conduct transactions with respect to their accounts, such as balance and transfer inquiries, transfers or payments and opening accounts; and
- conduct telemarketing to our customers or potential customers to advertise products or services.

Smartphone Banking

“KB Star Banking,” our mobile banking application for smartphones, allows our customers the flexibility to conduct a variety of financial transactions, including balance and transaction inquiries, fund transfers and asset management, anywhere at any time. Our smartphone banking services currently include:

- basic banking services, including fund transfers, balance and transaction inquiries, bill payments and foreign exchange services;
- investment services, including investing in savings deposits that are designed specifically for and offered to smartphone banking customers; and
- processing of loan applications and bancassurance services.

We also continue to develop innovative mobile applications that cater to specific customer needs and lifestyles. For example, we offer “Liiv,” a mobile banking platform designed to make routine transactions easier for our customers, including providing easy access to banking services without the additional electronic certification process, foreign currency exchange services with lower fees and functions that allow customers to easily split bills and transfer money. Through “Liiv Talk Talk,” our mobile peer-to-peer payment and messaging application, we also allow our customers to perform routine banking tasks with voice commands and interactive messaging. More recently, we launched “Liiv M,” a budget phone service that offers a hybrid of mobile banking and phone services, and “Liiv Pay,” an overseas mobile payment service. We provide our customers with a number of other useful tools, such as “KB Star Alerts,” which are free text messages that contain real-time account activity information as well as security alerts, and “KB My Money,” a mobile application that allows customers to manage a wide range of assets deposited with various financial institutions.

Other Channels

We provide cash management services, which include automatic transfers, connection services to other financial institutions, real-time firm banking, automatic fund concentration and transmittal of trading information.

Distribution Channels for Other Services

Through our non-banking subsidiaries, we operate a network of dedicated branches and other distribution channels through which our customers can access credit card, securities brokerage, insurance and consumer finance products and services. The following table sets forth information regarding the number and geographical distribution of the branches in Korea operated by KB Kookmin Card, KB Securities and KB Insurance as of December 31, 2019:

<u>Area</u>	<u>KB Kookmin Card</u>	<u>KB Securities</u>	<u>KB Insurance</u>
Seoul	7	43	55
Six largest cities (other than Seoul)	8	23	69
Other	11	46	133
Total	<u>26</u>	<u>112</u>	<u>257</u>

KB Life Insurance and KB Capital also operate a number of branches in the Seoul area.

We also provide credit card, securities brokerage, insurance and consumer finance services through dedicated call centers, smartphone applications and Internet websites operated by KB Kookmin Card, KB Securities, KB Insurance, KB Life Insurance and KB Capital.

Competition

We compete principally with other financial holding companies and nationwide commercial banks, as well as regional banks, development banks, specialized banks and branches of foreign banks operating in Korea. We also compete with other types of financial institutions in Korea, including savings institutions (such as mutual savings and finance companies and credit unions and credit cooperatives), investment institutions (such as merchant banking corporations), life insurance companies, non-life insurance companies, securities companies and other financial investment companies.

Competition in the domestic banking industry is generally based on the types and quality of the products and services offered, including the size and location of retail networks, the level of automation and interest rates charged and paid. Competition has increased significantly in our traditional core businesses, retail banking, small- and medium-sized enterprise banking and credit card lending, contributing to some extent to the asset quality deterioration in retail and small- and medium-sized loans. As a result, our margins on lending activities may decrease in the future.

Furthermore, the introduction of Internet-only banks in Korea is expected to increase competition in the Korean banking industry. Internet-only banks operate without branches and conduct most of their operations through electronic means, which enables them to minimize cost and offer customers higher interest rates on deposits or lower lending rates. In April 2017, K Bank, the first Internet-only bank in Korea, commenced operations. Kakao Bank, another Internet-only bank, in which Kookmin Bank holds a 9.9% equity interest, commenced operations in July 2017. In December 2019, Toss Bank was granted a preliminary license by the Financial Services Commission to operate as an Internet-only bank and is expected to begin operations in July 2021 upon receiving final approval from the Financial Services Commission.

In the Korean insurance industry, competition is based on a number of factors, including brand recognition, service, product features and pricing, investment performance and perceived financial strength. There has been

downward pressure in recent years on margins of insurance products as some of our competitors have sought to obtain or maintain market share by reducing margins and increasing marketing efforts. As the Korean non-life insurance and life insurance sectors continue to mature, they may experience a slowdown in growth as well as a stagnation in market penetration. Due to these and other factors, we believe that competition in the Korean insurance industry will likely remain intense in the future.

In addition, general regulatory reforms in the Korean financial industry have increased competition among banks and other financial institutions in Korea. As the reform of the financial sector continues, foreign financial institutions, some with greater resources than us, have entered, and may continue to enter, the Korean market either by themselves or in partnership with existing Korean financial institutions and compete with us in providing financial and related services.

Moreover, the Korean financial industry is undergoing significant consolidation. The number of nationwide commercial banks in Korea has decreased from 16 as of December 31, 1997, to six as of December 31, 2019. A number of significant mergers and acquisitions in the financial industry have taken place in Korea in recent years, including Hana Financial Group's acquisition of a controlling interest in Korea Exchange Bank in 2012 and the subsequent merger of Hana Bank into Korea Exchange Bank in 2015. In addition, as part of the Korean government's plans to privatize Woori Finance Holdings Co., Ltd. (the former financial holding company of Woori Bank), certain subsidiaries of Woori Finance Holdings were sold to other financial institutions and Woori Finance Holdings itself was merged into Woori Bank in 2014, which established a new financial holding company, Woori Financial Group Inc., in January 2019. In the insurance sector, China's Anbang Insurance Group acquired controlling interests in Tong Yang Life Insurance Co., Ltd. and Allianz Life Insurance Korea Co., Ltd. in 2015 and 2016, respectively, while Mirae Asset Life Insurance Co., Ltd. acquired PCA Life Insurance Co., Ltd. in 2017. Furthermore, Orange Life Insurance, Ltd. (formerly known as ING Life Insurance Korea, Ltd.) became a wholly-owned subsidiary of Shinhan Financial Group following the acquisition of equity interests by Shinhan Financial Group in February 2019 and January 2020. In the securities sector, in 2016, Mirae Asset Securities Co., Ltd. acquired a 43% interest in KDB Daewoo Securities Co., Ltd., which subsequently merged with and into Mirae Asset Securities to create Mirae Asset Daewoo Securities Co., Ltd., the largest securities company in Korea in terms of capital. We expect that consolidation in the Korean financial industry will continue. The financial institutions resulting from such consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for us. We intend to review potential acquisition opportunities as they arise. We cannot guarantee that we will not be involved in any future mergers or acquisitions.

Information Technology

We regularly implement various IT system-related initiatives and upgrades at the group and subsidiary level. We believe that continuous improvement of our IT systems is crucial in supporting our operations and management and providing high-quality customer service. Accordingly, we continue to upgrade and improve our systems through various activities, including projects to develop next generation banking systems for Kookmin Bank, further strengthen system security and timely develop and implement various new IT systems and services (including group-wide software) that support our business operations and risk management activities.

Our mainframe-based banking and credit card IT systems are designed to ensure continuity of services even where there is a failure of the host data center due to a natural disaster or other accidents by utilizing backup systems in disaster recovery data centers. In addition, through the implementation of Parallel Sysplex, a "multi-CPU system," our bank and credit card systems are designed and operated to be able to process transactions without material interruption in the event of CPU failure. In 2010, we launched a next-generation banking and credit card IT system that is designed to ensure greater reliability in financial transactions and allow more efficient development of new financial products. We also launched a new disaster recovery system to ensure continuity of operations. In addition, we implemented new technologies, including Multi Channel Integration and Enterprise Application Integration systems, to standardize our IT system and better manage IT system operational risk.

The integrity of our IT systems, and their ability to withstand potential catastrophic events (such as natural calamities and internal system failures), are crucial to our continuing operations. We currently test our disaster recovery systems on a quarterly basis. For additional information, see “Item 11. Quantitative and Qualitative Disclosures about Market Risk—Operational Risk Management.”

In 2019, we spent approximately ₩837 billion for our IT system implementation and operations, including expenses related to the construction of new IT systems, implementation of hardware and software technologies and other new systems, as well as related labor costs.

As of December 31, 2019, we employed a total of 1,638 full-time employees in our IT operations.

Assets and Liabilities

The tables below set out selected financial highlights regarding our operations and our assets and liabilities. Except as otherwise indicated, amounts as of and for the years ended December 31, 2015, 2016, 2017, 2018 and 2019 are presented on a consolidated basis under IFRS.

Loan Portfolio

As of December 31, 2019, our total loan portfolio was ₩342,092 billion compared to ₩321,811 billion as of December 31, 2018 and ₩292,233 billion as of December 31, 2017. As of December 31, 2019, 94.7% of our total loans were Won-denominated loans compared to 95.3% as of December 31, 2018 and 95.6% as of December 31, 2017.

Loan Types

The following table presents loans by type as of the dates indicated. Except where we specify otherwise, all loan amounts stated below are before deduction of allowances for loan losses. Total loans reflect our loan portfolio, including past due amounts.

	As of December 31,				
	2015	2016	2017	2018	2019
	(in billions of Won)				
Domestic:					
Corporate					
Small- and medium-sized enterprise	₩ 78,665	₩ 86,065	₩ 97,379	₩106,015	₩112,487
Large corporate ⁽¹⁾	30,182	30,206	30,002	34,686	36,665
Retail					
Mortgage and home equity	87,882	93,327	97,253	102,607	106,711
Other consumer	36,312	41,629	48,897	56,200	59,596
Credit cards	12,136	13,530	15,205	17,354	18,648
Total domestic	245,177	264,757	288,736	316,862	334,107
Foreign	2,410	3,007	3,497	4,949	7,985
Total gross loans	<u>₩247,587</u>	<u>₩267,764</u>	<u>₩292,233</u>	<u>₩321,811</u>	<u>₩342,092</u>

⁽¹⁾ Large corporate loans include ₩248 billion, ₩285 billion, ₩222 billion, ₩199 billion and ₩219 billion of loans to the Korean government and government related agencies (including the Korea Deposit Insurance Corporation) as of December 31, 2015, 2016, 2017, 2018 and 2019, respectively.

Loan Concentrations

On a consolidated basis, our exposure to any single borrower or any single *chaebol* is limited by law to 20% and 25%, respectively, of our “net aggregate equity capital,” as defined under the Enforcement Decree of the

Financial Holding Company Act. See “—Supervision and Regulation—Principal Regulations Applicable to Financial Holding Companies—Financial Exposure to Any Individual Customer and Major Investor.” In addition, Kookmin Bank’s exposure to any single borrower or any single *chaebol* is limited by the Bank Act to 20% and 25%, respectively, of its total Tier I and Tier II capital.

20 Largest Exposures by Borrower

As of December 31, 2019, our 20 largest exposures totaled ₩16,121 billion and accounted for 3.4% of our total exposures. The following table sets forth, as of December 31, 2019, our total exposures to these top 20 borrowers or issuers:

Company ⁽¹⁾	Loans		Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposures	Amounts Classified as Impaired Loans
	Won Currency	Foreign Currency					
	(in billions of Won)						
Samsung Securities Co., Ltd.	₩1,500	₩ —	₩ —	₩ 26	₩ —	₩ 1,526	₩—
Shinhan Investment Corp.	1,261	—	—	235	—	1,496	—
KEB Hana Bank	465	391	259	367	—	1,482	—
LG Display Co., Ltd.	—	232	—	4	810	1,046	—
Hyundai Motor Company	—	947	—	—	37	984	—
Hyundai Steel Co., Ltd.	263	402	—	235	12	912	—
SK Corp.	250	104	459	71	10	894	—
Mirae Asset Daewoo Co., Ltd.	523	—	—	320	—	843	—
Hyundai Heavy Industries Co., Ltd.	—	104	—	—	702	806	—
Hyundai Capital Services Inc.	510	17	—	271	—	798	—
LG Electronics Inc.	400	—	—	189	44	633	—
NH Investment & Securities Co., Ltd.	397	31	—	179	—	607	—
POSCO	4	1	373	201	—	579	—
Lotte Property and Development Co., Ltd.	—	—	—	—	579	579	—
Meritz Investment & Securities	454	69	—	10	—	533	—
Hanwha Asset Management Co., Ltd.	—	—	—	507	—	507	—
ICBC	—	402	—	84	—	486	—
Shin Young Securities Co., Ltd.	438	—	—	34	—	472	—
Samsung Heavy Industries Co., Ltd.	—	54	—	—	418	472	—
NH Bank	164	—	27	275	—	466	—
Total	₩6,629	₩2,754	₩1,118	₩3,008	₩2,612	₩16,121	₩—

⁽¹⁾ Excludes exposures to government-owned or -controlled enterprises or financial institutions, including Bank of Korea, Korea Housing Finance Corporation, Korea Land & Housing Corporation, the Korea Deposit Insurance Corporation and the Korea Development Bank.

As of December 31, 2019, 12 of these top 20 borrowers or issuers were companies belonging to the 30 largest highly-indebted business groups among *chaebols* in Korea designated as such by the Financial Supervisory Service based on their outstanding exposures.

Exposure to Chaebols

As of December 31, 2019, 5.2% of our total exposure was to the 30 largest highly-indebted business groups among *chaebols* in Korea designated as such by the Financial Supervisory Service based on their outstanding exposures. The following table shows, as of December 31, 2019, our total exposures to the ten *chaebol* groups to which we have the largest exposure:

Chaebol	Loans		Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposures	Amounts Classified as Impaired Loans
	Won Currency	Foreign Currency					
	(in billions of Won)						
Hyundai Motor ⁽¹⁾	₩1,191	₩1,780	₩ 26	₩ 647	₩ 511	₩ 4,155	₩—
Samsung ⁽²⁾	1,707	625	108	220	669	3,329	—
SK ⁽³⁾	954	672	459	847	184	3,116	—
LG ⁽⁴⁾	433	253	1	433	970	2,090	—
Hanwha ⁽⁵⁾	907	272	4	260	160	1,603	—
Lotte ⁽⁶⁾	407	264	—	285	630	1,586	—
Hyundai Heavy Industries ⁽⁷⁾	125	258	1	60	1,081	1,525	—
POSCO ⁽⁸⁾	118	40	408	299	109	974	—
GS ⁽⁹⁾	281	68	—	349	209	907	—
CJ ⁽¹⁰⁾	102	270	12	204	185	773	—
Total	₩6,225	₩4,502	₩1,019	₩3,604	₩4,708	₩20,058	₩—

(1) Includes principally Hyundai Motor, Hyundai Steel Company and Hyundai Capital Services Inc.

(2) Includes principally Samsung Securities Co., Ltd., Samsung Heavy Industries Co., Ltd. and Samsung Electronics Co., Ltd.

(3) Includes principally SK Holdings Co., Ltd., SK Networks Co., Ltd. and SK Hynix Inc.

(4) Includes principally LG Display Co., Ltd., LG Electronics Inc. and LG Chem Ltd.

(5) Includes principally Hanwha Asset Management Co., Ltd., Hanwha Solution Corporation and Hanwha Aerospace Co., Ltd.

(6) Includes principally Lotte Property & Development Co., Ltd., Lotte Rental Co., Ltd. and Lotte Corporation.

(7) Includes principally Hyundai Heavy Industries Co., Ltd., Hyundai Samho Heavy Industries Co., Ltd. and Hyundai Mipo Dockyard Co., Ltd.

(8) Includes principally POSCO, POSCO International Corporation and POSCO Energy Co., Ltd.

(9) Includes principally GS Caltex Corporation, GS Donghae Electric Power Co., Ltd. and GS Pocheon Green Energy Corporation.

(10) Includes principally CJ Cheiljedang Corporation, CJ CGV Co., Ltd. and Korea Integrated Freight Terminal Co., Ltd.

Loan Concentration by Industry

The following table presents the aggregate balance of our domestic and foreign corporate loans, by industry concentration, as of December 31, 2017, 2018 and 2019:

Industry	As of December 31,					
	2017		2018		2019	
	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)					
Services	₩ 54,268	41.5%	₩ 61,303	42.2%	₩ 65,192	41.6%
Manufacturing	40,201	30.7	42,267	29.1	42,901	27.4
Wholesale and retail	15,061	11.5	16,683	11.5	18,539	11.8
Financial institutions	11,094	8.5	13,494	9.3	16,148	10.3
Construction	3,022	2.4	3,277	2.2	3,645	2.4
Public sector	1,057	0.8	864	0.6	1,251	0.8
Others	6,054	4.6	7,491	5.1	8,978	5.7
Total	₩130,757	100.0%	₩145,379	100.0%	₩156,654	100.0%

Maturity Analysis

We typically roll over our working capital loans and unsecured consumer loans (other than those payable in installments) after we conduct our normal loan review in accordance with our loan review procedures. Working capital loans may generally be extended on an annual basis for an aggregate term of five years and unsecured consumer loans may generally be extended for another term of up to 12 months for an aggregate term of 10 years.

The following table sets out the scheduled maturities (time remaining until maturity) of our loan portfolio as of December 31, 2019. The amounts disclosed are before deduction of allowances for loan losses:

	<u>1 Year or Less</u>	<u>Over 1 Year But Not More Than 5 Years</u>	<u>Over 5 Years</u>	<u>Total</u>
	(in billions of Won)			
Domestic:				
Corporate				
Small- and medium-sized enterprises	₩ 80,429	₩26,027	₩ 6,031	₩112,487
Large corporate	23,742	9,143	3,780	36,665
Total corporate	104,171	35,170	9,811	149,152
Retail				
Mortgage and home equity	13,174	14,572	78,965	106,711
Other consumer	34,363	17,462	7,771	59,596
Total retail	47,537	32,034	86,736	166,307
Credit cards	15,750	2,469	429	18,648
Total domestic	167,458	69,673	96,976	334,107
Foreign:	4,198	2,483	1,304	7,985
Total gross loans	<u>₩171,656</u>	<u>₩72,156</u>	<u>₩98,280</u>	<u>₩342,092</u>

Interest Rate Sensitivity

The following table shows, as of December 31, 2019, the total amount of loans due after one year, which have fixed interest rates and variable or adjustable interest rates:

	<u>As of December 31, 2019</u>
	(in billions of Won)
Fixed rate ⁽¹⁾	₩ 49,156
Variable or adjustable rates ⁽²⁾	121,280
Total gross loans	<u>₩170,436</u>

⁽¹⁾ Fixed rate loans are loans for which the interest rate is fixed for the entire term.

⁽²⁾ Variable or adjustable rate loans are loans for which the interest rate is not fixed for the entire term.

For additional information regarding our management of interest rate risk, see “Item 11. Quantitative and Qualitative Disclosures about Market Risk—Market Risk Management—Market Risk Management for Non-Trading Activities.”

Credit Exposures to Companies in Workout, Restructuring or Rehabilitation

Workout is a voluntary procedure through which we, together with the borrower and other creditors, seek to restore the borrower’s financial stability and viability. Previously, workouts were regulated under a series of

Corporate Restructuring Promotion Acts, which last expired on June 30, 2018. In September 2018, the National Assembly of Korea adopted a new Corporate Restructuring Promotion Act, which became effective in October 2018 and is scheduled to expire in October 2023. Under the new Corporate Restructuring Promotion Act, creditors of a financially troubled borrower may participate in a creditors' committee, which is authorized to prohibit such creditors from exercising their rights against the borrower, commence workout procedures and approve or make revisions to a reorganization plan prepared by the lead creditor bank, the borrower and external experts. The composition of the creditors' committee is determined at the initial meeting of the committee by the approval of creditors holding not less than 75% of the borrower's total outstanding debt held by creditors who were notified of the initial meeting of the committee. Although creditors that are not financial institutions or hold less than 1% of the total outstanding debt of the borrower need not be notified of the initial meeting of the creditors' committee, if such creditors wish to participate, they may not be excluded. Any decision of the creditors' committee requires the approval of creditors holding not less than 75% of the total outstanding debt of the borrower. However, if a single creditor holds 75% or more of the borrower's total outstanding debt held by the creditors comprising the creditors' committee, any decision of the creditors' committee requires the approval of not less than 40% of the total number of creditors (including such single creditor) comprising the committee. An additional approval of creditors holding not less than 75% of the secured debt is required with respect to the borrower's debt restructuring. Once approved, any decision made by the creditors' committee is binding on all creditors of the borrower, with the exception of those creditors that were excluded by a resolution of the committee at its initial meeting and those who exercised their right to request that their claims be purchased. Creditors that voted against commencement of workout, approval or revision of the reorganization plan, debt restructuring, granting of new credit, extension of the joint management process or other resolutions of the committee have the right to request the creditors that voted in favor of such matters to purchase their claims at a mutually agreed price. In the event that the parties are not able to agree on the terms of purchase, a coordination committee consisting of experts would determine the terms. The creditors that oppose a decision made by the coordination committee may request a court to change such decision.

Upon approval of the workout plan, a credit exposure is initially classified as precautionary or lower and thereafter cannot be classified higher than precautionary with limited exceptions. If a corporate borrower is in workout, restructuring or rehabilitation, we take the status of the borrower into account in valuing our loans to and collateral from that borrower for purposes of establishing our allowances for credit losses.

Korean law also provides for corporate rehabilitation proceedings, which are court-supervised procedures to rehabilitate an insolvent company. Under these procedures, a restructuring plan is adopted at a meeting of interested parties, including creditors of the company. Such restructuring plan is subject to court approval.

A portion of our loans to and debt securities of corporate customers are currently in workout, restructuring or rehabilitation. As of December 31, 2019, ₩379 billion or 0.1% of our total loans were in workout, restructuring or rehabilitation. This included ₩64 billion of loans to large corporate borrowers and ₩315 billion of loans to small- and medium-sized enterprises.

The following table shows, as of December 31, 2019, our ten largest credit exposures that were in workout, restructuring or rehabilitation:

Company	Loans		Equity Securities	Guarantees and Acceptances	Total Exposures	Amounts Classified as Impaired Loans
	Won Currency	Foreign Currency				
			(in billions of Won)			
Orient Shipyard Co., Ltd.	₩ 49	₩ 2	₩ 0	₩ —	₩ 51	₩ 51
Dong Il Construction Co., Ltd.	40	—	—	—	40	40
Dreample Co., Ltd.	—	16	—	—	16	16
Ubcell Co., Ltd.	13	—	—	1	14	13
Trans-Pacific Resources Co., Ltd.	—	10	—	3	13	10
Shinsegae Tomboy Inc.	—	—	0	12	12	—
Donghwa IND Co., Ltd.	10	—	—	0	10	10
Woojeon Co., Ltd.	—	10	—	—	10	10
Grand Hotel Pyeongtaek Lake	9	—	—	—	9	—
Goli Co., Ltd.	9	—	—	—	9	—
Total	<u>₩130</u>	<u>₩38</u>	<u>₩—</u>	<u>₩ 16</u>	<u>₩184</u>	<u>₩150</u>

Provisioning Policy

Under IFRS 9 *Financial Instruments*, which replaced IAS 39, for annual periods commencing on or after January 1, 2018, we establish allowances for credit losses based on expected credit losses instead of incurred losses (as was the case under IAS 39) by assessing changes in expected credit losses and recognizing such changes as impairment loss (or reversal of impairment loss) in profit or loss. According to three stages of credit risk deterioration since initial recognition under IFRS 9, the allowance required to be established with respect to a loan or receivable is (i) the amount of the expected 12-month credit loss for stage 1 loans or receivables and (ii) the expected lifetime credit loss for stages 2 and 3 loans or receivables.

We establish allowances for loan losses with respect to loans to absorb such losses. For financial reporting periods starting prior to January 1, 2018, under IAS 39 *Financial Instruments: Recognition and Measurement*, we assessed individually significant loans on a case-by-case basis and other loans on a collective basis. In addition, if we determined that no objective evidence of impairment existed for a loan, we included such loan in a group of loans with similar credit risk characteristics and assessed them collectively for impairment regardless of whether such loan was significant. For individually significant loans, allowances for loan losses were recorded if objective evidence of impairment existed as a result of one or more events that occurred after initial recognition. For collectively assessed loans, we based the level of allowances for loan losses on our evaluation of the risk characteristics of such loans, taking into account such factors as historical loss experience, the financial condition of the borrowers and current economic conditions.

If additions or changes to the allowances for loan losses are required, then we record a provision for loan losses, which is included in impairment losses on credit loss and treated as a charge against current income. Credit exposures that we deem to be uncollectible, including actual loan losses, net of recoveries of previously charged-off amounts, are charged directly against the allowances for loan losses. See “Item 5.A. Operating Results—Critical Accounting Policies—Impairment of Loans and Allowances for Loan Losses.”

We generally consider the following loans to be impaired loans:

- loans that are past due by 90 days or more;
- loans that are subject to legal proceedings related to collection;
- loans to a borrower that has received a warning from the Korea Federation of Banks indicating that such borrower has exhibited difficulties in making timely payments of principal and interest;

- loans to corporate borrowers that are rated C or D according to Kookmin Bank's internal credit ratings for large companies or small-and medium-sized enterprises;
- loans related to refinancing for a borrower that exhibited difficulties making timely payments of principal and interest on an existing loan; and
- loans related to debt restructuring.

We regularly evaluate the adequacy of the overall allowances for loan losses and we believe that the allowances for loan losses reflect our best estimate of probable loan losses as of each balance sheet date.

Loan Aging Schedule

The following table shows our loan aging schedule (excluding accrued interest) as of the dates indicated:

As of December 31,	Normal Amount	%	Amount Past Due 1-3 Months		Amount Past Due 3-6 Months		Amount Past Due 6 Months or More		Total Amount
				%		%		%	
(in billions of Won, except percentages)									
2015	₩246,116	99.4%	₩549	0.2%	₩359	0.2%	₩563	0.2%	₩247,587
2016	266,381	99.5	460	0.2	295	0.1	628	0.2	267,764
2017	291,074	99.6	401	0.1	267	0.1	491	0.2	292,233
2018	320,628	99.7	458	0.1	366	0.1	359	0.1	321,811
2019	340,894	99.7	442	0.1	369	0.1	387	0.1	342,092

Non-Accrual Loans and Past Due Accruing Loans

We generally consider impaired loans to be non-accrual loans. However, we exclude from non-accrual status and continue to accrue interest on loans that are fully secured by cash on deposit or on which there are financial guarantees from the government, the Korea Deposit Insurance Corporation or certain financial institutions.

We generally recognize interest income on non-accrual loans using the interest rate used to discount the future cash flows of such loans for purposes of measuring impairment loss, as well as upon receipt of cash interest payments. We reclassify loans as accruing when interest and principal payments are up-to-date and future payments of principal and interest are reasonably assured.

Interest foregone is the interest due on non-accrual loans that has not been accrued in our books of account. The table below shows, for the years indicated, the amount of gross interest income that we would have recorded on loans accounted for on a non-accrual basis throughout the year, or since origination for loans held for part of the year, had we not foregone interest on those loans, as well as the amount of interest income on those loans that was included in our profit for the year.

	Year Ended December 31,				
	2015	2016	2017	2018	2019
(in billions of Won)					
Gross interest income that would have been recorded	₩220	₩195	₩198	₩154	₩152
Interest income included in profit for the year	₩151	₩129	₩135	₩ 82	₩ 75

The following table shows, as of the dates indicated, the amount of loans that were placed on a non-accrual basis and accruing loans which were past due 90 days or more. The category “accruing but past due 90 days” includes loans which are still accruing interest but on which principal or interest payments are contractually past due 90 days or more.

	As of December 31,				
	2015	2016	2017	2018	2019
	(in billions of Won)				
Loans accounted for on a non-accrual basis					
Corporate	₩1,607	₩1,403	₩1,108	₩ 906	₩ 640
Retail and credit cards	763	766	759	873	976
Sub-total	2,370	2,169	1,867	1,779	1,616
Accruing loans which are contractually past due 90 days or more as to principal or interest					
Corporate	47	27	66	84	47
Retail and credit cards	88	79	33	64	34
Sub-total	135	106	99	148	81
Total	₩2,505	₩2,275	₩1,966	₩1,927	₩1,697

Troubled Debt Restructurings

The following table presents, as of the dates indicated, our loans that are “troubled debt restructurings” for which we, for economic or legal reasons relating to the debtor’s financial difficulties, grant a concession to the debtor that we would not otherwise consider. These loans consist principally of corporate loans that have been restructured (through the process of workout, court receivership or composition) and which are accruing interest at rates lower than the original contractual terms as a result of a variation of terms upon restructuring.

	As of December 31,				
	2015	2016	2017	2018	2019
	(in billions of Won)				
Loans classified as “troubled debt restructurings”	₩228	₩168	₩170	₩133	₩154

For 2019, interest income that would have been recorded under the original contract terms of restructured loans amounted to ₩17 billion, out of which ₩12 billion was reflected as interest income during 2019.

Potential Problem Loans

We classify potential problem loans as loans that are designated as “early warning loans” and reported to the Financial Services Commission. “Early warning loans” are loans extended to borrowers that have been (i) identified by our early warning system as exhibiting signs of credit risk based on the relevant borrower’s financial data, credit information and/or transactions with banks and, following such identification and (ii) designated by our loan officers as potential problem borrowers based on their evaluation of known information about such borrowers’ possible credit problems. Such loans are required to be reported on a quarterly basis to the Financial Services Commission. If a borrower’s loans are designated as “early warning loans” pursuant to the process described above and included in our quarterly report to the Financial Services Commission, we consider such borrowers to have serious doubt as to their ability to comply with repayment terms in the near future.

As of December 31, 2019, we had ₩1,021 billion of potential problem loans.

Other Problematic Interest-Earning Assets

We have certain other interest-earning assets received in connection with troubled debt restructurings that, if they were loans, would be required to be disclosed as part of the non-accrual, past due or restructuring or potential problem loan disclosures provided above. As of December 31, 2015, 2016, 2017, 2018 and 2019, we did not have any debt securities received in connection with troubled debt restructurings on which interest was past due.

Non-Performing Loans

Non-performing loans are defined as loans that are past due by 90 days or more. These loans are generally classified as “substandard” or below. For further information on the classification of non-performing loans under Korean regulatory requirements, see “—Regulatory Reserve for Credit Losses” below.

The following table shows, as of the dates indicated, certain details of our total non-performing loan portfolio:

	As of December 31,				
	2015	2016	2017	2018	2019
	(in billions of Won, except percentages)				
Total non-performing loans	₩922	₩923	₩758	₩725	₩756
As a percentage of total loans	0.4%	0.3%	0.3%	0.2%	0.2%

Analysis of Non-Performing Loans

The following table sets forth, as of the dates indicated, our total non-performing loans by type of borrower:

	As of December 31,									
	2015		2016		2017		2018		2019	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)									
Domestic:										
Corporate										
Small- and medium sized										
enterprise	₩309	33.5%	₩302	32.7%	₩178	23.5%	₩267	36.8%	₩204	27.0%
Large corporate	187	20.3	247	26.8	209	27.6	17	2.3	37	4.9
Total corporate	496	53.8	549	59.5	387	51.1	284	39.1	241	31.9
Retail										
Mortgage and home equity	172	18.7	124	13.4	110	14.5	134	18.5	183	24.2
Other consumer	157	17.0	148	16.0	142	18.7	170	23.5	193	25.5
Total retail	329	35.7	272	29.4	252	33.2	304	42.0	376	49.7
Credit cards	70	7.6	81	8.8	100	13.2	119	16.4	123	16.3
Total domestic	895	97.1	902	97.7	739	97.5	707	97.5	740	97.9
Foreign:	27	2.9	21	2.3	19	2.5	18	2.5	16	2.1
Total non-performing loans	₩922	100.0%	₩923	100.0%	₩758	100.0%	₩725	100.0%	₩756	100.0%

Top 20 Non-Performing Loans

As of December 31, 2019, our 20 largest non-performing loans accounted for 15.7% of our total non-performing loan portfolio. The following table shows, as of December 31, 2019, certain information regarding our 20 largest non-performing loans:

	Industry	Gross Principal Outstanding	Allowances for Loan Losses ⁽¹⁾
(in billions of Won)			
Borrower A	Construction	₩ 26	₩24
Borrower B	Manufacturing	17	6
Borrower C	Manufacturing	10	10
Borrower D	Construction	5	5
Borrower E	Services	5	5
Borrower F	Services	5	1
Borrower G	Manufacturing	5	4
Borrower H	Manufacturing	5	2
Borrower I	Services	5	—
Borrower J	Manufacturing	4	4
Borrower K	Manufacturing	4	4
Borrower L	Services	4	—
Borrower M	Manufacturing	3	1
Borrower N	Services	3	—
Borrower O	Services	3	—
Borrower P	Services	3	—
Borrower Q	Services	3	1
Borrower R	Construction	3	3
Borrower S	Manufacturing	3	1
Borrower T	Manufacturing	3	1
Total		₩119	₩72

⁽¹⁾ If the estimated recovery value of collateral for a non-performing loan is sufficient compared to the outstanding loan balance, we record no allowances for loan losses for such non-performing loan.

Non-Performing Loan Strategy

One of our primary objectives is to prevent our loans from becoming non-performing. Through our corporate credit rating systems, we believe that we have reduced our risks relating to future non-performing loans. Our credit rating systems are designed to prevent our loan officers from extending new loans to borrowers with high credit risks based on the borrower's credit rating. Our early warning system is designed to bring any sudden increase in a borrower's credit risk to the attention of our loan officers, who then closely monitor such loans. See "Item 11. Quantitative and Qualitative Disclosures about Market Risk—Credit Risk Management—Credit Review and Monitoring."

Notwithstanding the above, if a loan becomes non-performing, an officer at the branch level responsible for monitoring non-performing loans will commence a due diligence review of the borrower's assets, send a notice either demanding payment or stating that we will take legal action and prepare for legal action.

At the same time, we also initiate our non-performing loan management process, which begins with:

- identifying loans subject to a proposed sale by assessing the estimated losses from such sale based on the estimated recovery value of collateral, if any, for such non-performing loans;

- identifying loans subject to charge-off based on the estimated recovery value of collateral, if any, for such non-performing loans and the estimated rate of recovery of unsecured loans; and
- on a limited basis, identifying corporate loans subject to normalization efforts based on the cash-flow situation of the borrower.

Once the details of a non-performing loan are identified, we pursue early solutions for recovery. While the overall process is the responsibility of Kookmin Bank's Credit Division, actual recovery efforts on non-performing loans are handled at the operating branch level.

In addition, we use the services of our wholly-owned loan collection subsidiary, KB Credit Information Co., Ltd., which receives payments from recoveries made on charged-off loans and certain loans that are overdue for over three months (28 days on average in the case of credit card loans). KB Credit Information has approximately 140 employees, including legal experts and management employees. The fees that it receives are based on the amounts of non-performing and charged-off loans that are recovered. In 2017, 2018 and 2019, the amount recovered was ₩313 billion, ₩324 billion and ₩325 billion, respectively.

Methods for resolving non-performing loans include the following:

- non-performing loans are managed by the operating branches of Kookmin Bank until such loans are charged off;
- a demand note is dispatched by mail if payment is generally one month past due;
- calls and visits are made by Kookmin Bank's operating branches to customers encouraging them to make payments;
- borrowers who are past due on payments of interest and principal are registered on the Korea Credit Information Services' database of non-performing loans;
- for unsecured loans other than credit card loans, the loans are transferred to KB Credit Information for collection on a case-by-case basis;
- for secured loans, actions to enforce or protect the security interests (including foreclosure and auction of the collateral) are commenced within five months of such loans becoming past due; and
- charged-off loans are given to KB Credit Information for collection, except for loans where the cost of collection exceeds the possible recovery or where the statute of limitations for collection has expired.

In addition, credit card loans that are in arrears for over 28 days on average are transferred to KB Credit Information for collection.

If a loan becomes non-performing, it is managed by an operating branch of Kookmin Bank until such loan is charged off. However, in order to promote speedy recovery on loans subject to foreclosures and litigation, our policy is to permit the branch responsible for handling these loans to request one of Kookmin Bank's regional head offices for assistance with litigation proceedings and proceedings related to foreclosure and auction of the collateral.

In addition to making efforts to collect on these non-performing loans, we also undertake measures to reduce the level of our non-performing loans, which include:

- selling our non-performing loans to third parties, including the Korea Asset Management Corporation; and
- entering into asset securitization transactions with respect to our non-performing loans.

We generally expect to suffer a partial loss on loans that we sell or securitize, to the extent such sales and securitizations are recognized under IFRS as sale transactions.

Allocation and Analysis of Allowances for Loan Losses

The following table presents, as of the dates indicated, the allocation of our allowances for loan losses by loan type. The ratio represents the percentage of allowances for loan losses in each category to total allowances for loan losses.

	As of December 31,									
	2015		2016		2017		2018 ⁽¹⁾		2019 ⁽¹⁾	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)									
Domestic:										
Corporate										
Small- and medium sized										
enterprise	₩ 775	30.0%	₩ 644	28.3%	₩ 522	24.7%	₩ 618	23.7%	₩ 546	22.7%
Large corporate	875	33.9	696	30.6	666	31.6	608	23.3	378	15.7
Total corporate	1,650	63.9	1,340	58.9	1,188	56.3	1,226	47.0	924	38.4
Retail										
Mortgage and home equity ..	37	1.4	29	1.3	24	1.2	39	1.5	46	1.9
Other consumer	454	17.6	452	19.8	404	19.2	602	23.1	663	27.5
Total retail	491	19.0	481	21.1	428	20.4	641	24.6	709	29.4
Credit cards	398	15.4	414	18.1	449	21.2	711	27.2	740	30.7
Total domestic	2,539	98.3	2,235	98.1	2,065	97.9	2,578	98.8	2,373	98.5
Foreign:⁽²⁾	43	1.7	43	1.9	45	2.1	31	1.2	35	1.5
Total allowances for loan losses ..	<u>₩2,582</u>	<u>100.0%</u>	<u>₩2,278</u>	<u>100.0%</u>	<u>₩2,110</u>	<u>100.0%</u>	<u>₩2,609</u>	<u>100.0%</u>	<u>₩2,408</u>	<u>100.0%</u>

⁽¹⁾ Figures as of December 31, 2018 and 2019 reflect the application of IFRS 9 and therefore may not be directly comparable to corresponding figures for prior years.

⁽²⁾ Consists primarily of loans to corporations.

The following tables analyze our allowances for loan losses and loan loss experience for each of the years indicated:

	Year Ended December 31,		
	2015	2016	2017
	(in billions of Won, except percentages)		
Balance at the beginning of the period	₩ 2,452	₩ 2,582	₩ 2,278
Amounts charged against income	1,100	579	583
Sale	(50)	(78)	(66)
Gross charge-offs:			
Domestic:			
Corporate			
Small- and medium-sized enterprise	412	467	308
Large corporate	275	278	87
Retail			
Mortgage and home equity	16	7	7
Other consumer	338	288	335
Credit cards	377	357	400
Foreign:	1	2	—
Total gross charge-offs	<u>(1,419)</u>	<u>(1,399)</u>	<u>(1,137)</u>
Recoveries:			
Domestic:			
Corporate			
Small-and medium-sized enterprise	156	214	280
Large corporate	—	1	—
Retail			
Mortgage and home equity	63	43	30
Other consumer	132	124	116
Credit cards	138	133	133
Foreign:	4	—	—
Total recoveries	<u>493</u>	<u>515</u>	<u>559</u>
Net charge-offs	(926)	(884)	(578)
Other charges ⁽¹⁾	6	79	(107)
Balance at the end of the period	<u>₩ 2,582</u>	<u>₩ 2,278</u>	<u>₩ 2,110</u>
Ratio of net charge-offs during the period to average loans outstanding during the period	0.4%	0.3%	0.2%

	As of December 31, 2018				As of December 31, 2019			
	Financial instruments applying 12-month expected credit losses	Financial instruments applying lifetime expected credit losses		Total	Financial instruments applying 12-month expected credit losses	Financial instruments applying lifetime expected credit losses		Total
		Non-impaired	Impaired			Non-impaired	Impaired	
		(in billions of Won, except percentages)						
Balance at the beginning of the period ⁽²⁾	₩ 612	₩ 732	₩ 1,265	₩ 2,609	₩ 632	₩ 824	₩ 1,153	₩ 2,609
Amounts charged against income	(2)	185	469	652	19	(1)	640	658
Sale	(2)	(2)	(16)	(20)	—	—	(10)	(10)
Stage transference:								
Transfer to 12-month expected credit losses	190	(187)	(3)	—	280	(265)	(15)	—
Transfer to lifetime expected credit losses (non-impaired)	(159)	187	(28)	—	(222)	326	(105)	(1)
Transfer to lifetime expected credit losses (impaired)	(7)	(92)	99	—	(6)	(106)	112	—
Gross charge-offs:								
Domestic:								
Corporate								
Small- and medium-sized enterprise	—	—	35	35	—	—	18	18
Large corporate	—	—	198	198	—	—	221	221
Retail								
Mortgage and home equity	—	—	5	5	—	—	4	4
Other consumer	—	—	376	376	—	—	439	439
Credit cards	—	—	465	465	—	—	506	506
Foreign:	—	—	—	—	—	—	1	1
Total gross charge-offs	—	—	(1,079)	(1,079)	—	—	(1,189)	(1,189)
Recoveries:								
Domestic:								
Corporate								
Small- and medium-sized enterprise	—	—	36	36	—	—	59	59
Large corporate	—	—	135	135	—	—	73	73
Retail								
Mortgage and home equity	—	—	10	10	—	—	2	2
Other consumer	—	—	115	115	—	—	120	120
Credit cards	—	—	133	133	—	—	136	136
Foreign:	—	—	—	—	—	—	—	—
Total recoveries	—	—	429	429	—	—	390	390
Net charge-offs	—	—	(650)	(650)	—	—	(799)	(799)
Other charges	—	1	17	18	—	3	(52)	(49)
Balance at the end of the period	₩ 632	₩ 824	₩ 1,153	₩ 2,609	₩ 703	₩ 781	₩ 924	₩ 2,408
Ratio of net charge-offs during the period to average loans outstanding during the period					0.2%			0.2%

(1) The amount for 2016 reflects an increase in allowances for loan losses of ₩136 billion attributable to the addition of KB Securities as a consolidated subsidiary in October 2016. The amount for 2017 reflects an increase in allowance for loan losses of ₩60 billion attributable to the addition of KB Insurance as a consolidated subsidiary in May 2017.

(2) The balance at the beginning of the year ended December 31, 2018 reflects the transition impact of ₩(543) billion for our allowance for loan losses resulting from the application of IFRS 9.

Regulatory Reserve for Credit Losses

If our allowances for credit losses are deemed insufficient for regulatory purposes, we are required to compensate for the difference by recording a regulatory reserve for credit losses, which is segregated within our retained earnings. Regulatory reserve for credit losses are not available for distribution to shareholders as dividends. The level of regulatory reserve for credit losses required to be recorded is equal to the amount by which our allowances for credit losses under IFRS are less than the greater of (x) the amount of expected loss calculated using the internal ratings-based approach under Basel III and as approved by the Financial Supervisory Service and (y) the required amount of credit loss reserve calculated based on standards prescribed by the Financial Services Commission. As of December 31, 2019, our regulatory reserve for credit losses was ₩3,418 billion.

The following tables set forth the Financial Services Commission’s guidelines for the classification of loans and the minimum percentages of the outstanding principal amount of the relevant loans or balances that the credit loss reserve must cover:

Loan Classification	Loan Characteristics
Normal	Loans extended to customers that, based on our consideration of their business, financial position and future cash flows, do not raise concerns regarding their ability to repay the loans.
Precautionary . . .	Loans extended to customers that (i) based on our consideration of their business, financial position and future cash flows, show potential risks with respect to their ability to repay the loans, although showing no immediate default risk or (ii) are in arrears for one month or more but less than three months.
Substandard	(i) Loans extended to customers that, based on our consideration of their business, financial position and future cash flows, are judged to have incurred considerable default risks as their ability to repay has deteriorated; or (ii) the portion that we expect to collect of total loans (a) extended to customers that have been in arrears for three months or more, (b) extended to customers that have incurred serious default risks due to the occurrence of, among other things, final refusal to pay their debt instruments, entry into liquidation or bankruptcy proceedings or closure of their businesses, or (c) extended to customers who have outstanding loans that are classified as “doubtful” or “estimated loss.”
Doubtful	Loans exceeding the amount that we expect to collect of total loans to customers that: (i) based on our consideration of their business, financial position and future cash flows, have incurred serious default risks due to noticeable deterioration in their ability to repay; or (ii) have been in arrears for three months or more but less than 12 months.
Estimated loss . . .	Loans exceeding the amount that we expect to collect of total loans to customers that: (i) based on our consideration of their business, financial position and future cash flows, are judged to be accounted as a loss because the inability to repay became certain due to serious deterioration in their ability to repay; (ii) have been in arrears for 12 months or more; or (iii) have incurred serious risks of default in repayment due to the occurrence of, among other things, final refusal to pay their debt instruments, liquidation or bankruptcy proceedings or closure of their business.

<u>Loan Classifications</u>	<u>Corporate⁽¹⁾</u>	<u>Consumer</u>	<u>Credit Card Balances⁽²⁾</u>	<u>Credit Card Loans⁽³⁾</u>
Normal	0.85% or above	1% or above	1.1% or above	2.5% or above
Precautionary	7% or above	10% or above	40% or above	50% or above
Substandard	20% or above	20% or above	60% or above	65% or above
Doubtful	50% or above	55% or above	75% or above	75% or above
Estimated loss	100%	100%	100%	100%

(1) Subject to certain exceptions pursuant to the Banking Industry Supervision Regulations of Korea.

(2) Applicable for credit card balances from general purchases.

(3) Applicable for cash advances, card loans and revolving credit card assets.

Loan Charge-Offs

Basic Principles

We attempt to minimize loans to be charged off by adhering to a sound credit approval process based on credit risk analysis prior to extending loans and a systematic management of outstanding loans. However, if charge-offs are necessary, we charge off loans subject to our charge-off policy at an early stage in order to maximize accounting transparency, to minimize any waste of resources in managing loans which have a low probability of being collected and to reduce our non-performing loan ratio.

Loans To Be Charged Off

Loans are charged off if they are deemed to be uncollectible by falling under any of the following categories:

- loans for which collection is not foreseeable due to insolvency, bankruptcy, compulsory execution, disorganization, dissolution or the shutting down of the business of the debtor;
- loans for which collection is not foreseeable due to the death or disappearance of the debtor;
- loans for which expenses of collection exceed the collectable amount;
- loans on which collection is not possible through legal or any other means;
- payments in arrears in respect of credit cards that have been overdue for a period of six months or more and have been classified as expected loss (excluding instances where there has been partial payment of the overdue balance, where a related balance is not overdue or where a charge off is not possible due to Korean regulations); and
- the portion of loans classified as “estimated loss,” net of any recovery from collateral, which is deemed to be uncollectible.

Procedure for Charge-off Approval

In order to charge off corporate loans, an application for a charge-off must be submitted to Kookmin Bank’s Credit Management Department promptly after the corporate loan is classified as estimated loss or deemed uncollectible. The Credit Management Department refers the charge-off application to Kookmin Bank’s Branch Audit Department for their review to ensure compliance with our internal procedures for charge-offs. Then, the Credit Management Department, after reviewing the application to confirm that it meets relevant requirements, seeks an approval from the Financial Supervisory Service for our charge-offs, which is typically granted. Once we receive approval from the Financial Supervisory Service, we must also obtain approval from our senior management to charge off those loans.

With respect to credit card balances and unsecured retail loans, we follow a different process to determine which credit card balances and unsecured retail loans should be charged off, based on the length of time those

loans or balances are past due. We charge off unsecured retail loans deemed to be uncollectible and credit card balances which have been overdue for a period of six months or more or which have been deemed to be uncollectible under IFRS.

Treatment of Loans Charged Off

Once loans are charged off, we classify them as charged-off loans and remove them from our balance sheet. These loans are managed based on a different set of procedures. We continue our collection efforts in respect of these loans, including through our subsidiary, KB Credit Information, although loans may be charged off before we begin collection efforts in some circumstances.

If a collateralized loan is overdue, we will, typically within one year from the time that such loan became overdue (or after a longer period in certain circumstances), petition a court to foreclose and sell the collateral through a court-supervised auction. If a debtor ultimately fails to repay and the court grants its approval for foreclosure, we will sell the collateral, net of expenses incurred from the auction.

Investment Portfolio

Investment Policy

We invest in and trade Won-denominated and, to a lesser extent, foreign currency-denominated securities for our own account to:

- maintain the stability and diversification of our assets;
- maintain adequate sources of back-up liquidity to match our funding requirements; and
- supplement income from our core lending activities.

We also invest in and trade such securities as part of the general account investments of our insurance subsidiaries that support their insurance policy liabilities. In making securities investments, we take into account a number of factors, including macroeconomic trends, industry analysis, credit evaluation and maturity in determining whether to make particular investments in securities.

Our investments in securities are also subject to a number of guidelines, including limitations prescribed under the Financial Holding Company Act and the Bank Act. Under these regulations, a bank holding company may not own (i) more than 5% of the total issued and outstanding shares of another finance-related company, (ii) any shares of its affiliates, other than its direct or indirect subsidiaries or (iii) any shares of a non-finance-related company. In addition, Kookmin Bank must limit its investments in equity securities and bonds with a maturity in excess of three years (other than monetary stabilization bonds issued by the Bank of Korea and national government bonds) to 100.0% of its total Tier I and Tier II capital amount (less any capital deductions). Generally, Kookmin Bank is also prohibited from acquiring more than 15.0% of the shares with voting rights issued by any other corporation subject to certain exceptions. Pursuant to the Bank Act, a bank and its trust accounts are prohibited from acquiring the shares of a major shareholder (for the definition of “major shareholder,” see “—Supervision and Regulation—Principal Regulations Applicable to Banks—Financial Exposure to Any Individual Customer and Major Shareholder”) of that bank in excess of an amount equal to 1% of the sum of the bank’s Tier I and Tier II capital (less any capital deductions). Further information on the regulatory environment governing our investment activities is set out in “—Supervision and Regulation—Principal Regulations Applicable to Financial Holding Companies—Liquidity,” “—Supervision and Regulation—Principal Regulations Applicable to Financial Holding Companies—Restrictions on Shareholdings in Other Companies,” “—Supervision and Regulation—Principal Regulations Applicable to Banks—Liquidity” and “—Supervision and Regulation—Principal Regulations Applicable to Banks—Restrictions on Shareholdings in Other Companies.”

The following table sets out the definitions of the three categories of securities we hold:

Category	Classification
Financial assets at fair value through profit or loss	Financial assets that are either classified as held for trading, designated by us at fair value through profit or loss upon initial recognition or required to be mandatorily measured at fair value through profit or loss.
Financial assets at fair value through other comprehensive income	Debt instruments held with a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and are consistent with representing solely payments of principal and interest on the principal amount outstanding; or Equity instruments not held for trading with the objective of generating a profit from short-term fluctuations in price or dealers' margin, designated as financial assets at fair value through other comprehensive income.
Financial assets at amortized cost	Financial assets held with a business model whose objective is to hold assets in order to collect contractual cash flows, and are consistent with representing solely payments of principal and interest on the principal amount outstanding.

See “Item 5.A. Operating Results—Critical Accounting Policies—Valuation of Securities and Financial Instruments.”

We also hold limited balances of venture capital securities, non-marketable and restricted equity securities and derivative instruments.

Carrying Amount and Market Value

The following tables set out the carrying amount and market value of securities in our securities portfolio as of the dates indicated:

	As of December 31, 2017	
	Carrying Amount	Market Value
	(in billions of Won)	
Available-for-sale financial assets:		
Equity securities	₩ 9,157	₩ 9,157
Debt securities		
Korean treasury securities and government agency securities	3,629	3,629
Debt securities issued by financial institutions	20,946	20,946
Corporate debt securities	10,571	10,571
Asset-backed securities	2,402	2,402
Others	1,411	1,411
Total available-for-sale financial assets	48,116	48,116
Held-to-maturity financial assets:		
Debt securities		
Korean treasury securities and government agency securities	5,448	5,432
Debt securities issued by financial institutions	2,475	2,490
Corporate debt securities	6,219	6,215
Asset-backed securities	4,306	4,303
Others	44	43
Total held-to-maturity financial assets	18,492	18,483
Financial assets at fair value through profit or loss:		
Equity securities	4,935	4,935
Debt securities		
Korean treasury securities and government agency securities	6,233	6,233
Debt securities issued by financial institutions	11,324	11,324
Corporate debt securities	5,133	5,133
Asset-backed securities	162	162
Others	2,317	2,317
Others	74	74
Sub-total	30,178	30,178
Financial assets designated at fair value through profit or loss⁽¹⁾		
Equity securities	67	67
Debt securities	369	369
Derivative-linked securities	1,613	1,613
Sub-total	2,050	2,050
Total financial assets at fair value through profit or loss	32,228	32,228
Total securities	₩98,836	₩98,827

	As of December 31,			
	2018		2019	
	Carrying Amount	Market Value	Carrying Amount	Market Value
	(in billions of Won)			
Financial assets at fair value through other comprehensive income:				
Equity securities				
Stocks	₩ 2,262	₩ 2,262	₩ 2,378	₩ 2,378
Equity investments	39	39	41	41
Other equity securities	69	69	85	85
Debt securities				
Korean treasury securities and government agency securities	3,475	3,475	9,502	9,502
Debt securities issued by financial institutions	20,108	20,108	20,913	20,913
Corporate debt securities	10,541	10,541	12,290	12,290
Asset-backed securities	1,100	1,100	832	832
Others	20	20	20	20
Total financial assets at fair value through other comprehensive income	37,614	37,614	46,061	46,061
Financial assets at amortized cost:				
Debt securities				
Korean treasury securities and government agency securities	5,090	5,452	5,396	6,046
Debt securities issued by financial institutions	6,847	6,797	8,157	8,183
Corporate debt securities	6,943	7,093	7,537	8,041
Asset-backed securities	4,783	4,817	4,258	4,303
Total financial assets at amortized cost	23,663	24,159	25,348	26,573
Financial assets at fair value through profit or loss				
Equity securities				
Stocks	1,094	1,094	1,716	1,716
Other equity securities	193	193	388	388
Debt securities				
Korean treasury securities and government agency securities	7,923	7,923	6,569	6,569
Debt securities issued by financial institutions	14,978	14,978	16,360	16,360
Corporate debt securities	4,101	4,101	3,218	3,218
Asset-backed securities	84	84	125	125
Puttable instruments (investment funds, etc.)	10,252	10,252	12,375	12,375
Derivative linked securities	3,517	3,517	3,624	3,624
Others	7,430	7,430	8,449	8,449
Others	79	79	80	80
Total financial assets at fair value through profit or loss	49,651	49,651	52,904	52,904
Total securities	₩110,928	₩111,424	₩124,313	₩125,538

(1) Effective as of January 1, 2018, financial assets designated at fair value through profit or loss have been reclassified as financial assets at fair value through profit or loss, without the option for designation of fair value, pursuant to the application of IFRS 9.

Maturity Analysis

The following table categorizes our debt securities by maturity and weighted average yield as of December 31, 2019:

	Within 1 Year	Weighted Average Yield ⁽¹⁾	Over 1 But within 5 Years	Weighted Average Yield ⁽¹⁾	Over 5 But within 10 Years	Weighted Average Yield ⁽¹⁾	Over 10 Years	Weighted Average Yield ⁽¹⁾	Total	Weighted Average Yield ⁽¹⁾
(in billions of Won, except percentages)										
Financial assets at fair value through other comprehensive income:										
Korean treasury securities and government agencies										
	₩ 425	0.19%	₩ 7,978	1.96%	₩ 400	1.85%	₩ 699	1.54%	₩ 9,502	1.84%
Debt securities issued by										
financial institutions	5,093	1.90	15,524	1.78	263	3.04	33	1.48	20,913	1.82
Corporate debt securities	1,979	2.42	8,530	2.38	942	2.75	839	1.02	12,290	2.32
Asset-backed securities	260	1.86	409	1.82	130	3.04	33	2.58	832	2.05
Others	20	1.83	—	0.00	—	0.00	—	0.00	20	1.83
Total	₩ 7,777	1.93%	₩32,441	1.98%	₩1,735	2.61%	₩1,604	1.29%	₩43,557	1.97%
Financial assets at amortized cost:										
Korean treasury securities and government agencies										
	₩ 208	3.81%	₩ 1,090	2.73%	₩ 189	3.35%	₩3,909	2.05%	₩ 5,396	2.30%
Debt securities issued by										
financial institutions	5,361	1.76	1,571	2.35	30	3.07	1,195	4.71	8,157	2.31
Corporate debt securities	1,029	3.33	1,823	2.63	652	2.59	4,033	2.96	7,537	2.90
Asset-backed securities	1,664	2.18	1,845	2.26	460	2.42	289	2.79	4,258	2.28
Total	₩ 8,262	2.09%	₩ 6,329	2.47%	₩1,331	2.65%	₩9,426	2.80%	₩25,348	2.48%
Financial assets at fair value through profit or loss:⁽²⁾										
Korean treasury securities and government agency securities										
	₩ 4,947	1.68%	₩ 1,210	2.16%	₩ 296	1.84%	₩ 116	5.29%	₩ 6,569	1.84%
Debt securities issued by										
financial institutions	13,154	1.67	2,842	2.24	201	2.79	163	3.92	16,360	1.81
Corporate debt securities	1,708	2.83	1,275	2.65	181	2.80	54	2.68	3,218	2.75
Asset-backed securities	30	1.96	70	1.72	—	0.00	25	2.18	125	1.87
Others	7,024	2.72	269	1.15	281	2.82	85	2.34	7,659	2.66
Total	₩26,863	2.02%	₩ 5,666	2.25%	₩ 959	2.51%	₩ 443	3.73%	₩33,931	2.10%

⁽¹⁾ The weighted average yield for the portfolio represents the yield to maturity for each individual security, weighted using its carrying amount (which is the amortized cost in the case of financial assets at amortized cost and the fair value in the case of financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss).

⁽²⁾ Excludes securities with no maturities, such as puttable instruments or derivative linked securities.

Concentrations of Risk

As of December 31, 2019, we held the following securities of individual issuers where the aggregate carrying amount of those securities exceeded 10% of our stockholders' equity at such date. As of December 31, 2019, our stockholders' equity was ₩38,534 billion.

	<u>Carrying Amount</u>	<u>Market Value</u>
	(in billions of Won)	
Name of Issuer:		
The Korean government	₩19,983	₩20,603
The Bank of Korea	11,098	11,100
The Korea Development Bank	9,141	9,146
Korea Housing Finance Corporation	6,604	6,655
Industrial Bank of Korea	6,196	6,200
Total	<u>₩53,022</u>	<u>₩53,704</u>

Korea Housing Finance Corporation is owned by the Korean government and the Bank of Korea. The Bank of Korea and Industrial Bank of Korea are controlled by the Korean government, whereas the Korea Development Bank is wholly-owned by the Korean government.

Funding

We obtain funding for our lending activities from a variety of sources, both domestic and foreign. Our principal source of funding is customer deposits. In addition, we acquire funding through long-term borrowings (comprising debentures and debts), short-term borrowings, including borrowings from the Bank of Korea, and call money.

Our primary funding strategy has been to achieve low-cost funding by increasing the average balances of low-cost retail deposits, in particular demand deposits and time deposits. We also have focused our marketing efforts on higher net worth individuals, who account for a significant portion of the assets in our retail deposit base. Customer deposits accounted for 77.6% of total funding as of December 31, 2017, 76.2% of total funding as of December 31, 2018 and 77.5% of total funding as of December 31, 2019.

Our borrowings consist of issuances of debentures and debt from financial institutions, the Korean government and government-affiliated funds. The majority of our debt is long-term, with maturities ranging from one year to 30 years.

Deposits

Although the majority of our deposits are short-term, it has been our experience that the majority of our depositors generally roll over their deposits at maturity, providing us with a stable source of funding.

The following table shows the average balances of our deposits and the average rates paid on our deposits for the periods indicated:

	2017		2018		2019	
	Average Balance ⁽¹⁾	Average Rate Paid	Average Balance ⁽¹⁾	Average Rate Paid	Average Balance ⁽¹⁾	Average Rate Paid
	(in billions of Won, except percentages)					
Demand deposits:						
Non-interest bearing	₩ 4,114	—	₩ 4,059	—	₩ 3,942	—
Interest bearing	110,945	0.26%	117,267	0.30%	122,519	0.30%
Time deposits	127,478	1.58	141,021	1.87	155,762	1.94
Certificates of deposit	2,863	1.57	3,045	1.90	4,781	1.95
Average total deposits	<u>₩245,400</u>	<u>0.97%</u>	<u>₩265,392</u>	<u>1.16%</u>	<u>₩287,004</u>	<u>1.23%</u>

⁽¹⁾ Average balances are based on daily balances for our banking, credit card and investment and securities operations and monthly or quarterly balances for our other operations.

For a description of our retail deposit products, see “—Business—Retail Banking—Deposit-Taking Activities.”

Time Deposits and Certificates of Deposit

The following table presents the remaining maturities of our time deposits and certificates of deposit which had a fixed maturity in excess of ₩100 million as of December 31, 2019:

	Time Deposits	Certificates of Deposit	Total
	(in billions of Won)		
Maturing within three months	₩25,536	₩1,053	₩ 26,589
After three but within six months	20,498	736	21,234
After six but within 12 months	47,317	2,408	49,725
After 12 months	3,751	—	3,751
Total	<u>₩97,102</u>	<u>₩4,197</u>	<u>₩101,299</u>

Long-term borrowings

The aggregate amount of contractual maturities of all long-term borrowings (comprising debentures and debt) as of December 31, 2019 was as follows:

	As of December 31, 2019
	(in billions of Won)
Due in 2020	₩17,835
Due in 2021	13,201
Due in 2022	10,939
Due in 2023	5,735
Due in 2024	5,885
Thereafter	4,595
Gross long-term borrowings	58,190
Fair value adjustments	62
Deferred financing costs	—
Discount	(42)
Total long-term borrowings, net	<u>₩58,210</u>

Short-term borrowings

The following table presents information regarding our short-term borrowings (borrowings with an original maturity of one year or less) for the periods indicated:

	As of and for the Year Ended December 31,		
	2017	2018	2019
	(in billions of Won, except percentages)		
Call money:			
Year-end balance	₩ 1,299	₩ 1,081	₩ 433
Average balance ⁽¹⁾	3,405	2,189	1,419
Maximum balance ⁽²⁾	3,997	3,421	3,541
Average interest rate ⁽³⁾	1.31%	1.81%	1.84%
Year-end interest rate	1.20-2.20%	1.20-2.20%	1.41-4.30%
Borrowings from the Bank of Korea:⁽⁴⁾			
Year-end balance	₩ 1,889	₩ 1,673	₩ 2,650
Average balance ⁽¹⁾	1,805	1,766	2,002
Maximum balance ⁽²⁾	1,935	1,868	2,650
Average interest rate ⁽³⁾	0.69%	0.70%	0.66%
Year-end interest rate	0.50-0.75%	0.50-0.75%	0.50-0.75%
Other short-term borrowings:⁽⁵⁾			
Year-end balance	₩ 22,632	₩ 28,585	₩ 27,461
Average balance ⁽¹⁾	20,601	25,991	25,962
Maximum balance ⁽²⁾	23,436	30,195	29,133
Average interest rate ⁽³⁾	1.26%	1.65%	1.80%
Year-end interest rate	0.00-7.00%	0.00-5.55%	0.00-3.53%

⁽¹⁾ Average balances are based on daily balances for our banking, credit card and investment and securities operations and monthly or quarterly balances for our other operations.

⁽²⁾ Maximum balances are based on month-end balances.

⁽³⁾ Average interest rates for the year are calculated by dividing the total interest expense by the average amount borrowed.

⁽⁴⁾ Borrowings from the Bank of Korea generally mature within one month for borrowings in Won and six months for borrowings in foreign currencies. These short-term borrowings were secured by securities totaling ₩2,980 billion as of December 31, 2019.

⁽⁵⁾ Other short-term borrowings include securities sold under repurchase agreement, bills sold, borrowings and debentures. Other short-term borrowings have maturities of one year or less. Securities sold under repurchase agreements were secured by securities totaling ₩9,282 billion as of December 31, 2019.

Supervision and Regulation

Principal Regulations Applicable to Financial Holding Companies

General

The Financial Holding Company Act, last amended on December 31, 2018, regulates Korean financial holding companies and their subsidiaries. The entities that regulate and supervise Korean financial holding companies and their subsidiaries are the Financial Services Commission and the Financial Supervisory Service.

The Financial Services Commission exerts direct control over financial holding companies pursuant to the Financial Holding Company Act. Among other things, the Financial Services Commission approves the establishment of financial holding companies, issues regulations on the capital adequacy of financial holding companies and their subsidiaries, and drafts regulations relating to the supervision of financial holding companies.

Following the instructions and directives of the Financial Services Commission, the Financial Supervisory Service supervises and examines financial holding companies and their subsidiaries. In particular, the Financial Supervisory Service sets requirements relating to Korean financial holding companies' liquidity and capital

adequacy ratios and establishes reporting requirements within the authority delegated under the Financial Services Commission regulations. Financial holding companies must submit quarterly reports to the Financial Supervisory Service discussing business performance, financial status and other matters identified in the Enforcement Decree of the Financial Holding Company Act.

Under the Financial Holding Company Act, a financial holding company is a company which primarily engages in controlling its subsidiaries by holding equity stakes in them equal in aggregate to at least 50% of the financial holding company's aggregate assets based on its balance sheet as of the end of the immediately preceding fiscal year. A company is required to obtain approval from the Financial Services Commission to become a financial holding company.

A financial holding company may engage only in controlling the management of its subsidiaries, as well as certain ancillary activities including:

- financially supporting its direct and indirect subsidiaries;
- raising capital necessary for investment in its subsidiaries or providing financial support to its direct and indirect subsidiaries;
- supporting the business of its direct and indirect subsidiaries, including the development and marketing of financial products;
- providing data processing, legal, accounting and other resources and services that have been commissioned by its direct and indirect subsidiaries so as to support their operations; and
- any other businesses exempted from authorization, permission or approval under the applicable laws and regulations.

The Financial Holding Company Act requires every financial holding company (other than a financial holding company that is controlled by another financial holding company) and its subsidiaries to obtain prior approval from the Financial Services Commission before acquiring control of another company or to file a report with the Financial Services Commission within 30 days thereafter in certain cases (including acquiring control of another company whose assets are less than ₩100 billion as of the end of the immediately preceding fiscal year). In addition, the Financial Services Commission must grant permission to liquidate or to merge with any other company before the liquidation or merger. A financial holding company must report to the Financial Services Commission when certain events, including the following, occur:

- when the largest shareholder changes;
- in the case of a bank holding company, when a major investor changes;
- when the shareholding of the controlling shareholder (i.e., the "largest shareholder" or a "principal shareholder," each as defined in the Financial Holding Company Act) or a person who has a "special relationship" with such controlling shareholder (as defined in the Enforcement Decree of the Financial Holding Company Act) changes by 1% or more of the total issued and outstanding voting shares of the financial holding company;
- when it changes its corporate name;
- when there is a cause for its dissolution; and
- when it or its subsidiaries cease to control any of their respective direct or indirect subsidiaries by disposing of their shares of such direct or indirect subsidiary.

Capital Adequacy

The Financial Holding Company Act does not provide for a minimum paid-in capital requirement related to financial holding companies. However, all financial holding companies are required to maintain a specified level

of solvency. In addition, with respect to the allocation of net profit earned in a fiscal term, a financial holding company must set aside in its legal reserve an amount equal to at least 10% of its net income after tax each time it pays dividends on its net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital.

A bank holding company, which is a financial holding company controlling banks or other financial institutions conducting banking business as prescribed in the Financial Holding Company Act, is required to maintain a total minimum consolidated capital adequacy ratio of 11.5% (including applicable additional capital buffers and requirements as described below) as of January 1, 2019. "Consolidated capital adequacy ratio" is defined as the ratio of equity capital as a percentage of risk-weighted assets on a consolidated basis, determined in accordance with the Financial Services Commission requirements that have been formulated based on Bank of International Settlements (or BIS) standards. "Equity capital," as applicable to bank holding companies, is defined as the sum of common equity Tier I capital, additional Tier I capital and Tier II capital less any deductible items, each as defined under the Regulation on the Supervision of Financial Holding Companies. "Risk-weighted assets" is defined as the sum of credit risk-weighted assets and market risk-weighted assets.

Pursuant to amended regulations promulgated by the Financial Services Commission commencing in 2013 to implement Basel III, Korean bank holding companies were required to maintain a minimum ratio of common equity Tier I capital to risk-weighted assets of 3.5% and Tier I capital to risk-weighted assets of 4.5% from December 1, 2013, which minimum ratios were increased to 4.0% and 5.5%, respectively, from January 1, 2014 and increased further to 4.5% and 6.0%, respectively, from January 1, 2015. Such requirements are in addition to the pre-existing requirement for a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8.0%, which remains unchanged. The amended regulations also require an additional capital conservation buffer of 2.5% in 2019 and 2020, as well as a potential counter-cyclical capital buffer of up to 2.5%, which is determined on a quarterly basis by the Financial Services Commission. Furthermore, we and Kookmin Bank were each designated as a domestic systemically important bank holding company and a domestic systemically important bank, respectively, for 2019 by the Financial Services Commission and were subject to an additional capital requirement of 1.0% in 2019. In June 2019, we and Kookmin Bank were each again designated as a domestic systemically important bank holding company and a domestic systemically important bank, respectively, for 2020, which would again subject us to an additional capital requirement of 1.0% in 2020.

Liquidity

All financial holding companies are required to match the maturities of their assets and liabilities on a non-consolidated basis in accordance with the Financial Holding Company Act in order to ensure liquidity. Financial holding companies must:

- maintain a Won liquidity ratio (defined as Won assets due within one month, including marketable securities, divided by Won liabilities due within one month) of not less than 100% on a non-consolidated basis;
- maintain a foreign currency liquidity ratio (defined as foreign currency liquid assets due within three months divided by foreign currency liabilities due within three months) of not less than 80% on a non-consolidated basis (except that such requirement is not applicable to a financial holding company whose foreign currency liabilities constitute less than 1% of its total assets);
- maintain a ratio of foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days as a percentage of total foreign currency assets of not less than 0% on a non-consolidated basis (except that such requirement is not applicable to a financial holding company whose foreign currency liabilities constitute less than 1% of its total assets);
- maintain a ratio of foreign currency liquid assets due within a month less foreign currency liabilities due within a month as a percentage of total foreign currency assets of not less than negative 10% on a

non-consolidated basis (except that such requirement is not applicable to a financial holding company whose foreign currency liabilities constitute less than 1% of its total assets); and

- make quarterly reports regarding their Won liquidity and foreign currency liquidity to the Financial Supervisory Service.

Financial Exposure to Any Individual Customer and Major Investor

Subject to certain exceptions, the aggregate credit (as defined in the Financial Holding Company Act, the Bank Act, the Financial Investment Services and Capital Markets Act, the Insurance Business Act, the Mutual Savings Bank Act and the Specialized Credit Financial Business Act, respectively) of a financial holding company and its direct and indirect subsidiaries that are banks, merchant banks, financial investment companies, insurance companies, savings banks or specialized credit financial business companies (which we refer to as “Financial Holding Company Total Credit”) to a single group of companies that belong to the same conglomerate as defined in the Monopoly Regulations and Fair Trade Act will not be permitted to exceed 25% of net aggregate equity capital (as defined below).

“Net aggregate equity capital” is defined under the Enforcement Decree of the Financial Holding Company Act as the sum of:

- (1) in case of a financial holding company, the capital amount as defined in Article 24-3(7), Item 2 of the Enforcement Decree of the Financial Holding Company Act;
- (2) in case of a bank, the capital amount as defined in Article 2(1), Item 5 of the Bank Act;
- (3) in case of a merchant bank, the capital amount as defined in Article 342(1) of the Financial Investment Services and Capital Markets Act; and
- (4) in case of a financial investment company, the capital amount as defined in Article 37(3) of the Enforcement Decree of the Financial Investment Services and Capital Markets Act;
- (5) in case of an insurance company, the capital amount as defined in Article 2, Item 15 of the Insurance Business Act;
- (6) in case of a savings bank, the capital amount as defined in Article 2, Item 4 of the Mutual Savings Bank Act; and
- (7) in case of a specialized credit financial business company, the capital amount as defined in Article 2, Item 19 of the Specialized Credit Financial Business Act;

less the sum of:

- (1) the amount of shares of direct and indirect subsidiaries held by the financial holding company;
- (2) the amount of shares that are cross-held by each direct and indirect subsidiary that is a bank, merchant bank, financial investment company, insurance company, savings bank or specialized credit financial business company; and
- (3) the amount of shares of a financial holding company held by such direct and indirect subsidiaries that are banks, merchant banks, financial investment companies, insurance companies, savings banks or specialized credit financial business companies.

The Financial Holding Company Total Credit to a single individual or judicial person may not exceed 20% of the net aggregate equity capital. In addition, the Financial Holding Company Total Credit to a shareholder holding (together with the persons who have a “special relationship” with the shareholder, as defined in the Enforcement Decree of the Financial Holding Company Act) in aggregate more than 10% of the total issued and outstanding voting shares of a financial holding company generally may not exceed the lesser of (x) 25% of the

net aggregate equity capital and (y) the amount of the equity capital of the financial holding company multiplied by the shareholding ratio of the shareholder (together with the persons who have a special relationship with the shareholder).

Further, the total sum of credits (as defined in the Financial Holding Company Act, the Bank Act, the Financial Investment Services and Capital Markets Act, the Insurance Business Act, the Mutual Savings Bank Act and the Specialized Credit Financial Business Act, respectively) of a bank holding company and its direct and indirect subsidiaries that are banks, merchant banks, financial investment companies, insurance companies, savings banks or specialized credit financial business companies as applicable (“Bank Holding Company Total Credit”) extended to a “major investor” (as defined below) (together with the persons who have a special relationship with that major investor) will not be permitted to exceed the lesser of (x) 25% of the net aggregate equity capital and (y) the amount of the equity capital of the bank holding company multiplied by the shareholding ratio of the major investor, except for certain cases.

“Major investor” is defined as:

- a shareholder holding (together with persons who have a special relationship with that shareholder), in excess of 10% (or in the case of a bank holding company controlling regional banks only, 15%) in the aggregate of the bank holding company’s total issued and outstanding voting shares; or
- a shareholder holding (together with persons who have a special relationship with that shareholder), more than 4% in the aggregate of the total issued and outstanding voting shares of the bank holding company controlling nationwide banks, where the shareholder is the largest shareholder or has actual control over the major business affairs of the bank holding company through, for example, appointment and dismissal of the officers pursuant to the Enforcement Decree of the Financial Holding Company Act.

In addition, the total sum of the Bank Holding Company Total Credit granted to all of a bank holding company’s major investor must not exceed 25% of the bank holding company’s net aggregate equity capital. Furthermore, any bank holding company that, together with its direct and indirect subsidiaries, intends to extend credit to the bank holding company’s major investor in an amount equal to or exceeding the lesser of (x) the amount equivalent to 0.1% of the net aggregate equity capital and (y) ₩5 billion, in any single transaction, must obtain prior unanimous board resolutions and then, immediately after providing the credit, must file a report to the Financial Services Commission and publicly disclose the filing of the report.

Restrictions on Transactions Among Direct and Indirect Subsidiaries and Financial Holding Company

Generally, a direct or indirect subsidiary of a financial holding company may not extend credits (excluding the amount of corporate credit card payments issued by a direct or indirect subsidiary of a financial holding company that is engaged in the banking business) to that financial holding company. In addition, a direct or indirect subsidiary of a financial holding company may not extend credits (excluding the amount of corporate credit card payments issued by a direct or indirect subsidiary of a financial holding company that is engaged in the banking business) to other direct or indirect subsidiaries of the financial holding company in excess of 10% of its capital amount on an individual basis or to those subsidiaries in excess of 20% of its capital amount on an aggregate basis. The subsidiary extending the credit must also obtain an adequate level of collateral depending on the type of such collateral from the other subsidiaries unless the credit is otherwise approved by the Financial Services Commission. The adequate level of collateral for each type of collateral is as follows:

- (1) for deposits and installment savings, obligations of the Korean government or the Bank of Korea, obligations guaranteed by the Korean government or the Bank of Korea, obligations secured by securities issued or guaranteed by the Korean government or the Bank of Korea, 100% of the credit extended;
- (2) for obligations of municipal governments under the Local Autonomy Act, local public enterprise under the Local Public Enterprises Act and investment institutions and other quasi-investment institutions

under the Basic Act on the Management of Government-Invested Institution or for obligations guaranteed by, or secured by the securities issued or guaranteed by, the aforementioned entities pursuant to the relevant regulations, 110% of the credit extended; and

- (3) for any property other than those set forth in paragraphs (1) and (2) above, 130% of the credit extended.

Subject to certain exceptions, a direct or indirect subsidiary of a financial holding company is prohibited from owning the shares of any other direct or indirect subsidiaries (other than those directly controlled by that direct or indirect subsidiary) under the common control of the financial holding company.

Subject to certain exceptions, a direct or indirect subsidiary of a financial holding company is also prohibited from owning the shares of the financial holding company controlling that direct or indirect subsidiary. The transfer of certain assets classified as precautionary or below between a financial holding company and its direct or indirect subsidiary or between the direct and indirect subsidiaries of a financial holding company is prohibited except for:

- (1) transfers to a special purpose company, or entrustment with a trust company, for an asset-backed securitization transaction under the Asset-Backed Securitization Act;
- (2) transfers to a mortgage-backed securities issuance company for a mortgage securitization transaction;
- (3) transfers or in-kind contributions to a corporate restructuring vehicle under the Corporate Restructuring Investment Companies Act; and
- (4) transfers to a corporate restructuring company under the Industry Promotion Act.

Disclosure of Management Performance

For the purpose of protecting the depositors and investors in the subsidiaries of financial holding companies, the Financial Services Commission requires financial holding companies to disclose certain material matters including:

- (1) financial condition and profit and loss of the financial holding company and its direct and indirect subsidiaries;
- (2) fund-raising by the financial holding company and its direct and indirect subsidiaries and the appropriation of such funds;
- (3) any sanctions levied on the financial holding company and its direct and indirect subsidiaries under the Financial Holding Company Act or any corrective measures or sanctions under the Law on Improvement of Structure of Financial Industry; and
- (4) occurrence of any non-performing assets or financial incident that may have a material adverse effect, or any other event as prescribed in the applicable regulations.

Restrictions on Shareholdings in Other Companies

Generally, a financial holding company may not own (i) more than 5% of the total issued and outstanding shares of another finance-related company, (ii) any shares of its affiliates, other than its direct or indirect subsidiaries or (iii) any shares of a non-finance-related company.

Restrictions on Shareholdings by Direct and Indirect Subsidiaries

Generally, a direct subsidiary of a financial holding company may not control any other company other than, as an indirect subsidiary of the financial holding company:

- financial institutions established in foreign jurisdictions;

- certain financial institutions which are engaged in any business that the direct subsidiary may conduct without any licenses or permits;
- certain financial institutions whose business is related to the business of the direct subsidiary as described by the Enforcement Decree of the Financial Holding Company Act (for example, a bank subsidiary may control only credit information companies, credit card companies and financial investment companies with a dealing, brokerage, collective investment, investment advice, discretionary investment management and/or trust license);
- certain financial institutions whose business is related to the financial business as prescribed by the regulations of the Ministry of Economy and Finance; and
- certain companies which are not financial institutions but whose business is related to the financial business of the financial holding company as prescribed by the Enforcement Decree of the Financial Holding Company Act (for example, a finance-related research company or a finance-related information technology company).

Acquisition of such indirect subsidiaries by direct subsidiaries of a financial holding company requires prior permission from the Financial Services Commission or the submission of a report to the Financial Services Commission, depending on the types of the indirect subsidiaries and the amount of total assets of the indirect subsidiaries.

Subject to certain exceptions, an indirect subsidiary of a financial holding company may not control any other company. If an indirect subsidiary of a financial holding company had control over another company at the time it became such an indirect subsidiary, the indirect subsidiary is required to dispose of its interest in the other company within two years from such time.

Restrictions on Transactions between a Bank Holding Company and its Major Investor

A bank holding company and its direct and indirect subsidiaries may not acquire (including through their respective trust accounts) shares issued by the bank holding company's major investor in excess of 1% of the net aggregate equity capital (as defined above). In addition, if those entities intend to acquire shares issued by that major investor in any single transaction equal to or exceeding the lesser of (x) the amount equivalent to 0.1% of the net aggregate equity capital and (y) ₩5 billion, that entity must obtain prior unanimous board resolutions and then, immediately after the acquisition, file a report to the Financial Services Commission and publicly disclose the filing of the report.

Restrictions on Ownership of a Financial Holding Company

Under the Financial Holding Company Act, a financial institution generally may not control a financial holding company. In addition, any single shareholder and persons who have a special relationship with that shareholder may acquire beneficial ownership of up to 10% of the total issued and outstanding shares with voting rights of a bank holding company that controls nationwide banks or 15% of the total issued and outstanding shares with voting rights of a bank holding company that controls only regional banks, subject to certain exceptions. Among others, the Korean government and the Korea Deposit Insurance Corporation are not subject to this limit. "Non-financial business group companies" (as defined below), however, may not acquire the beneficial ownership of shares of a bank holding company controlling nationwide banks in excess of 4% of that bank holding company's outstanding voting shares unless they obtain the approval of the Financial Services Commission and agree not to exercise voting rights in respect of shares in excess of the 4% limit, in which case they may acquire beneficial ownership of up to 10%. Any other person (whether a Korean national or a foreign investor) may acquire no more than 10% of total voting shares issued and outstanding of a bank holding company controlling nationwide banks unless they obtain approval from the Financial Services Commission in each instance where the total holding will exceed 10% (or 15% in the case of a bank holding company controlling only regional banks), 25% or 33% of the total voting shares issued and outstanding of that bank holding company controlling nationwide banks.

Furthermore, in the case where a person (including Korean and foreign investors, but excluding certain persons prescribed under the Enforcement Decree of the Financial Holding Company Act) (i) acquires in excess of 4% of the total issued and outstanding voting shares of any bank holding company (other than a bank holding company controlling only regional banks), (ii) becomes the largest shareholder of such bank holding company in which such person has acquired in excess of 4% of the total issued and outstanding voting shares, (iii) changes its shareholding in such bank holding company, in which it has acquired in excess of 4% of the total issued and outstanding voting shares, by 1% or more of the total issued and outstanding voting shares of such bank holding company or (iv) is a private equity fund or an investment purpose company holding in excess of 4% of the total outstanding voting shares of a bank holding company and changes its members or shareholders, such person must file a report on such change with the Financial Services Commission (x) in case of (i) and (iii), by the last day of the month immediately following the month in which such change occurred, or (y) in case of (ii) and (iv), within ten days after the end of the month in which such change occurred.

“Non-financial business group companies” as defined under the Financial Holding Company Act include:

- (1) any same shareholder group where the aggregate net assets of all non-financial business companies belonging to that group equals or exceeds 25% of the aggregate net assets of all members of that group;
- (2) any same shareholder group where the aggregate assets of all non-financial business companies belonging to that group equals or exceeds ₩2 trillion;
- (3) any mutual fund where a same shareholder group identified in (1) or (2) above beneficially owns and/or exercises the voting rights of more than 4% of the total issued and outstanding voting shares of that mutual fund;
- (4) any private equity fund (a) where a person falling under any of items (1) through (3) above is a limited partner holding not less than 10% of the total amount of contributions to the private equity fund, or (b) where a person falling under any of items (1) through (3) above is a general partner, or (c) where the total equity of the private equity fund acquired by each affiliate belonging to several enterprise groups subject to the limitation on mutual investment is 30% or more of the total amount of contributions to the private equity fund; or
- (5) the investment purpose company concerned, where a private equity fund falling under item (4) above acquires or holds stocks in excess of 4% of the stock or equity of such company or exercises *de facto* control over significant managerial matters of such company through appointment or dismissal of executives or in any other manner.

Sharing of Customer Information among Financial Holding Company and its Subsidiaries

Under the Act on Use and Protection of Credit Information, any individual customer’s credit information must be disclosed or otherwise used by financial institutions only to determine, establish or maintain existing commercial transactions with them and only after obtaining written consent to use that information. In addition, under the Act on Real Name Financial Transactions and Confidentiality, an individual working at a financial institution may not provide or reveal information or data concerning the contents of financial transactions to other persons unless such individual receives a request or consent in writing from the holder of a title deed, except under certain exceptions stipulated in the Act. Under the Financial Holding Company Act, a financial holding company and its direct and indirect subsidiaries, however, may share certain credit information of individual customers among themselves for internal management purposes outlined in the Enforcement Decree of the Financial Holding Company Act (such as credit risk management, internal control and customer analysis), without the customers’ written consent, subject to the methods and procedures for provision of such information set forth therein. A subsidiary financial investment company with a dealing and/or brokerage license of a financial holding company may provide that financial holding company and its other direct and indirect subsidiaries information relating to the aggregate amount of cash or securities that a customer of the financial investment company with a dealing and/or brokerage license has deposited, for internal management purposes

outlined in the Enforcement Decree of the Financial Holding Company Act, subject to the methods and procedures for provision of such information set forth therein. Certain amendments to the Financial Holding Company Act, which became effective on November 29, 2014, limit the scope of credit information that may be shared without the customers' prior consent and require certain procedures for provision of customer information as prescribed by the Financial Services Commission. Beginning on November 29, 2014, notice must be given to customers at least once a year regarding (i) the provider of customer information, (ii) the recipient of customer information, (iii) the purpose of providing the information and (iv) the categories of the information provided.

Principal Regulations Applicable to Banks

The banking system in Korea is governed by the Bank Act and the Bank of Korea Act of 1950, as amended (the "Bank of Korea Act"). In addition, Korean banks are subject to the regulations and supervision of the Bank of Korea, the Monetary Policy Board of the Bank of Korea, the Financial Services Commission and its executive body, the Financial Supervisory Service.

The Bank of Korea, established in June 1950 under the Bank of Korea Act, performs the customary functions of a central bank. It seeks to contribute to the sound development of the national economy by price stabilization through establishing and implementing efficient monetary and credit policies with a focus on financial stability. The Bank of Korea acts under instructions of the Monetary Policy Board, the supreme policy-making body of the Bank of Korea.

Under the Bank of Korea Act, the Monetary Policy Board's primary responsibilities are to formulate monetary and credit policies and to determine the operations, management and administration of the Bank of Korea.

The Financial Services Commission, established in April 1998, regulates commercial banks pursuant to the Bank Act, including establishing guidelines on capital adequacy of commercial banks, and promulgates regulations relating to supervision of banks. Furthermore, the Financial Services Commission regulates market entry into the banking business.

The Financial Supervisory Service, established in January 1999, is subject to the instructions and directives of the Financial Services Commission and carries out supervision and examination of commercial banks. In particular, the Financial Supervisory Service sets requirements both for the prudent control of liquidity and for capital adequacy and establishes reporting requirements pursuant to the authority delegated to it under the Financial Services Commission regulations, pursuant to which banks are required to submit annual reports on financial performance and shareholdings, regular reports on management strategy and non-performing loans, including write-offs, and management of problem companies and plans for the settlement of bad loans.

Under the Bank Act, approval to commence a commercial banking business or a long-term financing business must be obtained from the Financial Services Commission. Commercial banking business is defined as the lending of funds acquired predominantly from the acceptance of demand deposits for a period not exceeding one year or subject to the limitation established by the Financial Services Commission, for a period between one year and three years. Long-term financing business is defined as the lending, for periods in excess of one year, of funds acquired predominantly from paid-in capital, reserves or other retained earnings, the acceptance of time deposits with maturities of at least one year, or the issuance of debentures or other bonds. A bank wishing to enter into any business other than commercial banking and long-term financing businesses must file a report to the Financial Services Commission. For businesses that are subject to a license or approval requirement under applicable laws, such as approval to commence a trust business under the Financial Investment Services and Capital Markets Act, such report must be filed concurrently with a relevant license or approval application to the Financial Services Commission. In addition, approval to merge with any other banking institution, to liquidate, spin off or close a banking business or to transfer all or a part of a business must be obtained from the Financial Services Commission.

If the Financial Services Commission deems a bank's financial condition to be unsound or if a bank fails to meet the applicable capital adequacy ratio set forth under Korean law, the Financial Services Commission may order:

- admonitions or warnings with respect to the bank or its officers;
- capital increases or reductions;
- assignments of contractual rights and obligations relating to financial transactions;
- a suspension of performance by its officers of their duties and the appointment of receivers;
- disposals of property holdings or closures of subsidiaries or branch offices or downsizing;
- stock cancelations or consolidations;
- mergers with other financial institutions;
- acquisition of such bank by a third party; and
- suspensions of a part or all of its business operations for not more than six months.

Capital Adequacy

The Bank Act requires nationwide banks, such as us, to maintain a minimum paid-in capital of ₩100 billion and regional banks to maintain a minimum paid-in capital of ₩25 billion. All banks, including foreign bank branches in Korea, are also required to maintain a prescribed solvency position. A bank must also set aside in its legal reserve an amount equal to at least 10% of the net income after tax each time it pays dividends on net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital.

Under the Detailed Regulation on the Supervision of the Banking Business, the capital of a bank is divided into two categories, Tier I and Tier II capital. Tier I capital (core capital) consists of (i) common equity Tier I capital, including paid-in capital, capital surplus and retained earnings related to common equity and accumulated other comprehensive gains and losses, and (ii) additional Tier I capital, including paid-in capital and capital surplus related to hybrid Tier I capital instruments that, among other things, qualify as contingent capital and are subordinated to subordinated debt. Tier II capital (supplementary capital) consists of, among other things, capital and capital surplus from the issuance of Tier II capital, allowances for loan losses on loans classified as "normal" or "precautionary," subordinated debt and other capital securities which meet the standards prescribed by the governor of the Financial Supervisory Service under Article 26(2) of the Regulation on the Supervision of the Banking Business.

All banks must meet minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets, determined in accordance with Financial Services Commission requirements that have been formulated based on BIS standards. These requirements were adopted and became effective in 1996, and were amended effective January 1, 2008 upon the implementation by the Financial Supervisory Service of Basel II. Under such requirements, all domestic banks and foreign bank branches are required to meet a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8.0%. Commencing in July 2013, the Financial Services Commission promulgated a series of amended regulations implementing Basel III, pursuant to which Korean banks and bank holding companies were required to maintain a minimum ratio of common equity Tier I capital to risk-weighted assets of 3.5% and Tier I capital to risk-weighted assets of 4.5% from December 1, 2013, which minimum ratios were increased to 4.0% and 5.5%, respectively, from January 1, 2014 and increased further to 4.5% and 6.0%, respectively, from January 1, 2015. Such requirements are in addition to the pre-existing requirement for a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8.0%, which remains unchanged. The amended regulations also require an additional capital conservation buffer of 2.5% in 2019 and 2020, as well as a potential counter-cyclical capital buffer of up to 2.5%, which is determined on a quarterly basis by the Financial Services Commission.

Furthermore, we and Kookmin Bank were each designated as a domestic systemically important bank holding company and a domestic systemically important bank, respectively, for 2019 by the Financial Services Commission and were subject to an additional capital requirement of 1.0% in 2019. In June 2019, we and Kookmin Bank were each again designated as a domestic systemically important bank holding company and a domestic systemically important bank, respectively, for 2020, which would again subject us to an additional capital requirement of 1.0% in 2020.

Under the Detailed Regulation on the Supervision of the Banking Business, the following risk-weight ratios must be applied by Korean banks in respect of home mortgage loans:

- (1) for those banks which adopted a standardized approach for calculating credit risk capital requirements, a risk-weight ratio of 35% (only in the case where the loan is fully secured by a first ranking mortgage) and, with respect to high-risk home mortgage loans, 50% or 70%; and
- (2) for those banks which adopted an internal ratings-based approach for calculating credit risk capital requirements, a risk-weight ratio calculated with reference to the probability of default, loss given default and exposure at default, each as defined under the Detailed Regulation on the Supervision of the Banking Business.

Liquidity

All banks are required to ensure adequate liquidity by matching the maturities of their assets and liabilities in accordance with the Regulation on the Supervision of the Banking Business. Banks may not invest an amount exceeding 100% of their Tier I and Tier II capital (less any capital deductions) in equity securities and certain other securities with a redemption period of over three years. This stipulation does not apply to Korean government bonds, Monetary Stabilization Bonds issued by the Bank of Korea or debentures and stocks referred to in items 1 and 2, respectively, of paragraph (6) of Article 11 of the Act on the Structural Improvement of the Financial Industry. The Financial Services Commission uses the liquidity coverage ratio (described below) as the principal liquidity risk management measure, and currently requires each Korean bank to:

- maintain a liquidity coverage ratio (defined as the ratio of highly liquid assets to total net cash outflows over a 30-day period) of not less than 100%;
- maintain a foreign currency liquidity coverage ratio of not less than 80%; and
- submit monthly reports with respect to the maintenance of these ratios.

The Monetary Policy Board of the Bank of Korea is empowered to fix and alter minimum reserve requirements that banks must maintain against their deposit liabilities. The current minimum reserve ratios are:

- 7% of average balances for Won currency demand deposits outstanding;
- 0% of average balances for Won currency employee asset establishment savings deposits, employee long-term savings deposits, employee house purchase savings deposits, long-term house purchase savings deposits, household long-term savings deposits and employee preferential savings deposits outstanding (with respect to employee-related deposits and household long-term savings deposits, only if such deposits were made prior to February 28, 2013); and
- 2% of average balances for Won currency time deposits, installment savings deposits, mutual installments, housing installments and certificates of deposit outstanding.

For foreign currency deposit liabilities, a 2% minimum reserve ratio is applied to time deposits with a maturity of one month or longer, certificates of deposit with a maturity of 30 days or longer and savings deposits with a maturity of six months or longer and a 7% minimum reserve ratio is applied to other deposits. A 1% minimum reserve ratio applies to deposits in offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks as well as foreign currency certificates of deposit held by account holders of such offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks.

Furthermore, under the Regulation on the Supervision of the Banking Business, Kookmin Bank is required to maintain a minimum “mid- to long-term foreign exchange funding ratio” of 100%. “Mid-to long term foreign exchange funding ratio” refers to the ratio of (1) the total outstanding amount of foreign exchange borrowing with a maturity of more than one year to (2) the total outstanding amount of foreign exchange lending with a maturity of one year or more.

Amendments Relating to Net Stable Funding Ratio and Leverage Ratio Requirements

Effective January 31, 2018, the Financial Services Commission implemented amendments to the Regulation on Supervision of the Banking Business that impose certain liquidity- and leverage-related ratio requirements on banks in Korea, in accordance with Basel III. Pursuant to these amendments, each Korean bank is required to:

- maintain a net stable funding ratio (defined as the ratio of the available amount of stable funding to the required amount of stable funding) of not less than 100%, where (i) the available amount of stable funding generally refers to the portion of liabilities and capital expected to be reliable over a one-year time horizon and (ii) the required amount of stable funding generally refers to the amount of stable funding that is required to be maintained based on the liquidity characteristics, residual maturities and off-balance sheet exposures of the bank’s assets, each as calculated in accordance with the Detailed Regulation on the Supervision of the Banking Business;
- maintain a leverage ratio (defined as the ratio of core capital to total exposures) of not less than 3%, where (i) the core capital includes paid-in capital, capital surplus, retained earnings and hybrid Tier I capital instruments and (ii) total exposures include on-balance sheet exposures, derivative exposures, securities financing transaction exposures and off-balance sheet exposures, each as calculated in accordance with the Detailed Regulation on the Supervision of the Banking Business; and
- submit monthly reports with respect to the maintenance of these ratios.

Financial Exposure to Any Individual Customer or Major Shareholder

Under the Bank Act, subject to certain exceptions, the sum of large exposures by a bank—in other words, the total sum of its credits to single individuals, juridical persons or business groups that exceed 10% of the sum of Tier I and Tier II capital (less any capital deductions)—generally must not exceed five times the sum of Tier I and Tier II capital (less any capital deductions). In addition, subject to certain exceptions, banks generally may not extend credit (including loans, guarantees, purchases of securities (extended for financial support) and any other transactions that directly or indirectly create credit risk) in excess of 20% of the sum of Tier I and Tier II capital (less any capital deductions) to a single individual or juridical person, or grant credit in excess of 25% of the sum of Tier I and Tier II capital (less any capital deductions) to a single group of companies as defined in the Monopoly Regulations and Fair Trade Act.

The Bank Act also provides for certain restrictions on extending credits to a major shareholder. A “major shareholder” is defined as:

- a shareholder holding (together with persons who have a special relationship with that shareholder) in excess of 10%; (or 15% in the case of regional banks) in the aggregate of the bank’s total issued and outstanding voting shares; or
- a shareholder holding (together with persons who have a special relationship with such shareholder) in excess of 4% in the aggregate of the bank’s (excluding regional banks) total issued and outstanding voting shares of a bank (excluding shares subject to the shareholding restrictions on “non-financial business group companies” as described below), where such shareholder is the largest shareholder or has actual control over the major business affairs of the bank through, for example, appointment and dismissal of the officers as prescribed by the Enforcement Decree of the Bank Act. Non-financial business group companies primarily consist of: (i) any single shareholding group whose non-financial

company assets comprise no less than 25% of its aggregate net assets; (ii) any single shareholding group whose non-financial company assets comprise no less than ₩2 trillion in aggregate; or (iii) any investment company under the Financial Investment Services and Capital Markets Act of which any single shareholding group identified in (i) or (ii) above, owns more than 4% of the total issued and outstanding shares.

Under these restrictions, banks may not extend credits to a major shareholder (together with persons who have a special relationship with that shareholder) in an amount greater than the lesser of (x) 25% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) and (y) the relevant major shareholder's shareholding ratio multiplied by the sum of the bank's Tier I and Tier II capital (less any capital deductions). In addition, the total sum of credits granted to all major shareholders must not exceed 25% of the bank's Tier I and Tier II capital (less any capital deductions).

Interest Rates

Korean banks generally depend on deposits as their primary funding source. Under the Act on Registration of Credit Business, Etc. and Protection of Finance Users and the regulations thereunder, interest rates on loans made by registered banks in Korea may not exceed 24% per annum. Historically, interest rates on deposits and lending were regulated by the Monetary Policy Board. There are no controls on deposit interest rates in Korea, except for the prohibition on interest payments on current account deposits.

Lending to Small- and Medium-sized Enterprises

In order to obtain funding from the Bank of Korea at concessionary rates for their small- and medium-sized enterprise loans, banks are required to allocate a certain minimum percentage of any quarterly increase in their Won currency lending to small- and medium-sized enterprises. Currently, this minimum percentage is 45% in the case of nationwide banks and 60% in the case of regional banks. If a bank does not comply with this requirement, the Bank of Korea may:

- require the bank to prepay all or a portion of funds provided to that bank in support of loans to small- and medium-sized enterprises; or
- lower the bank's credit limit.

Disclosure of Management Performance

For the purpose of protecting depositors and investors in commercial banks, the Financial Services Commission requires commercial banks to publicly disclose certain material matters, including:

- the financial condition and profit and loss of the bank and its subsidiaries;
- fundraising by the bank and the appropriation of such funds;
- any sanctions levied on the bank under the Bank Act or any corrective measures or sanctions under the Act on the Structural Improvement of the Financial Industry; and
- the occurrence of any of the following events or any other event as prescribed by the applicable regulations, that have damaged or are likely to damage the soundness of the bank's management, except as may otherwise have been disclosed by a bank or its financial holding company listed on the KRX KOSPI Market in accordance with the Financial Investment Services and Capital Markets Act,:
 - (i) loans bearing no profit made to a single business group in an amount exceeding 10% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month (where the loan exposure to that borrower is calculated pursuant to the criteria under the Detailed Regulation on the Supervision of the Banking Business), unless the loan exposure to that group is not more than ₩4 billion; and

- (ii) any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month, unless the loss is not more than ₩1 billion.

Restrictions on Lending

Pursuant to the Bank Act and its sub-regulations, a commercial bank may not provide:

- loans secured by a pledge of the bank's own shares, whether direct or indirect;
- loans to enable a natural or juridical person to buy the shares issued by the bank, whether direct or indirect;
- loans to any of the bank's officers or employees, other than *de minimis* loans of up to (i) ₩20 million in the case of a general loan, (ii) ₩50 million in the case of a general loan plus a housing loan or (iii) ₩60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions;
- credit (including loans) secured by a pledge of the equity securities of its subsidiary corporation or to enable a natural or juridical person to buy shares of the bank's subsidiary corporation; or
- loans to any officers or employees of the bank's subsidiary corporation, other than general loans of up to ₩20 million or general and housing loans of up to ₩50 million in the aggregate.

Regulations Relating to Retail Household Loans

The Financial Services Commission has implemented a number of changes in recent years to the regulations relating to retail household lending by banks. Under the currently applicable regulations:

- as to loans secured by housing (including apartments) located nationwide, the loan-to-value ratio (the aggregate principal amount of loans secured by such collateral over the appraised value of the collateral) should not exceed 70%;
- as to loans secured by housing (including apartments) located in areas of excessive investment or high speculation, in each case, as designated by the government, the loan-to-value ratio should not exceed 40%, except that such maximum loan-to-value ratio is 50% for low-income households that (i) have an annual income of less than ₩70 million (or ₩80 million for first-home buyers), (ii) do not currently own any housing and (iii) are using the loan to purchase low-price housing valued at less than ₩600 million;
- as to any new loans secured by housing (including apartments) located nationwide to be extended to a household that already owns one or more houses, the maximum loan-to-value ratio may be adjusted to 10% lower than the applicable loan-to-value ratio described above;
- as to any new loans secured by housing (including apartments) located in areas of excessive investment or high speculation to a household that already owns one or more houses, the extension of such loans is not permitted unless otherwise specified by the applicable regulations;
- any new loans secured by high-priced housing (including apartments) located in areas of excessive investment or high speculation, for which a price exceeding ₩900 million has been officially announced pursuant to the Act on the Public Announcement of Real Estate Values, are generally prohibited;
- as to loans secured by housing (including apartments) located in areas of excessive investment or high speculation, in each case, as designated by the government, the borrower's debt-to-income ratio (calculated as (1) the aggregate annual total payment amount of (x) the principal of and interest on loans secured by such housing and (y) the interest on other debts of the borrower over (2) the

borrower's annual income) should not exceed 40%, except that such maximum debt-to-income ratio is 50% for low-income households that (i) have an annual income of less than ₩70 million (or ₩80 million for first-home buyers), (ii) do not currently own any housing and (iii) are using the loan to purchase low-price housing valued at less than ₩600 million; and

- as to any new loans secured by apartments located in an unregulated Seoul metropolitan area to be extended to a household that already owns one or more houses, the maximum debt-to-income ratio may be adjusted to 10% lower than the applicable debt-to-income ratio described above.

Restrictions on Investments in Property

A bank may not invest in the following securities in excess of 100% of the sum of the bank's Tier I and Tier II capital (less any capital deductions):

- debt securities (within the meaning of paragraph (3) of Article 4 of the Financial Investment Services and Capital Markets Act) the maturity of which exceeds three years, but excluding government bonds, monetary stabilization bonds issued by the Bank of Korea and bonds within the meaning of item 2, paragraph (6) of Article 11 of the Act on the Structural Improvement of the Financial Industry;
- equity securities, but excluding securities within the meaning of item 1, paragraph (6) of Article 11 of the Act on the Structural Improvement of the Financial Industry;
- derivatives-linked securities (within the meaning of paragraph (7) of Article 4 of the Financial Investment Services and Capital Markets Act) the maturity of which exceeds three years; and
- beneficiary certificates, investment contracts and depositary receipts (within the meaning of paragraph (2) of Article 4 of the Financial Investment Services and Capital Markets Act) the maturity of which exceeds three years.

A bank may possess real estate property only to the extent necessary to conduct its business. The aggregate value of such property may not exceed 60% of the sum of the bank's Tier I and Tier II capital (less any capital deductions). Any property that a bank acquires by exercising its rights as a secured party, or which a bank is prohibited from acquiring under the Bank Act, must be disposed of within three years, unless otherwise specified by the regulations thereunder.

Restrictions on Shareholdings in Other Companies

Under the Bank Act, a bank may not own more than 15% of the shares outstanding with voting rights of another corporation, except where, among other reasons:

- that corporation engages in a category of financial businesses set forth by the Financial Services Commission; or
- the acquisition of such shares by the bank is necessary for the corporate restructuring of such corporation and is approved by the Financial Services Commission.

In the above exceptional cases, the total investment in corporations in which the bank owns more than 15% of the outstanding shares with voting rights may not exceed (i) 20% of the sum of Tier I and Tier II capital (less any capital deductions) or (ii) 30% of the sum of Tier I and Tier II capital (less any capital deductions) where the acquisition satisfies the requirements determined by the Financial Services Commission.

The Bank Act provides that a bank using its bank accounts and its trust accounts is not permitted to acquire the equity securities issued by the major shareholder of such bank in excess of an amount equal to 1% of the sum of Tier I and Tier II capital (less any capital deductions).

Restrictions on Bank Ownership

Under the Bank Act, a single shareholder and persons who have a special relationship with that shareholder generally may acquire beneficial ownership of no more than 10% of a nationwide bank's total issued and outstanding shares with voting rights and no more than 15% of a regional bank's total issued and outstanding shares with voting rights. The Korean government, the Korea Deposit Insurance Corporation and bank holding companies qualifying under the Financial Holding Company Act are not subject to this limit. However, pursuant to an amendment to the Bank Act which became effective on February 14, 2014, non-financial business group companies may not acquire beneficial ownership of shares of a nationwide bank in excess of 4% (or 15% in the case of a regional bank) of that bank's outstanding voting shares, unless they satisfy certain requirements set forth by the Enforcement Decree of the Bank Act, obtain the approval of the Financial Services Commission and agree not to exercise voting rights in respect of shares in excess of the 4% limit (or the 15% limit in the case of a regional bank), in which case they may acquire beneficial ownership of up to 10% of a nationwide bank's outstanding voting shares. Such amendment grants an exception for non-financial business group companies which, at the time of the enactment of the amended provisions, held more than 4% of the shares of a bank.

In addition, if a foreign investor, as defined in the Foreign Investment Promotion Act, owns in excess of 4% of a nationwide bank's outstanding voting shares, non-financial business group companies may acquire beneficial ownership of up to 10% (or 15% in the case of a regional bank) of that bank's outstanding voting shares, and in excess of 10% (or 15% in the case of a regional bank), 25% or 33% of that bank's outstanding voting shares with the approval of the Financial Services Commission in each instance, up to the number of shares owned by the foreign investor. Any other person (whether a Korean national or a foreign investor), with the exception of non-financial business group companies described above, may acquire no more than 10% of a nationwide bank's total voting shares issued and outstanding, unless they obtain approval from the Financial Services Commission in each instance where the total holding will exceed 10% (or 15% in the case of regional banks), 25% or 33% of the bank's total voting shares issued and outstanding provided that, in addition to the foregoing threshold shareholding ratios, the Financial Services Commission may, at its discretion, designate a separate and additional threshold shareholding ratio.

Deposit Insurance System

The Depositor Protection Act provides insurance for certain deposits of banks in Korea through a deposit insurance system. Under the Depositor Protection Act, all banks governed by the Bank Act are required to pay an insurance premium to the Korea Deposit Insurance Corporation on a quarterly basis and the rate is determined under the Enforcement Decree to the Depositor Protection Act. If the Korea Deposit Insurance Corporation makes a payment on an insured amount, it will acquire the depositors' claims with respect to that payment amount. The Korea Deposit Insurance Corporation insures a maximum of ₩50 million per individual for deposits and interest in a single financial institution, regardless of when the deposits were made and the size of the deposits.

Restrictions on Foreign Exchange Position

Under the Foreign Exchange Transaction Act of Korea, each of a bank's net overpurchased and oversold positions may not exceed 50% of its shareholder's equity as of the end of the prior month.

Laws and Regulations Governing Other Business Activities

A bank must register with the Ministry of Economy and Finance to enter the foreign exchange business, which is governed by the Foreign Exchange Transaction Act of Korea. A bank must obtain the permission of the Financial Services Commission to enter the securities business, which is governed by regulations under the Financial Investment Services and Capital Markets Act. Under these laws, a bank may engage in the foreign exchange business, securities repurchase business, governmental/public bond underwriting business and governmental bond dealing business, among others.

Trust Business

A bank must obtain approval from the Financial Services Commission to engage in trust businesses. The Trust Act and the Financial Investment Services and Capital Markets Act govern the trust activities of banks, and they are subject to various legal and accounting procedures and requirements, including the following:

- under the Trust Act, assets accepted in trust by a bank in Korea must be segregated from other assets in the accounts of that bank; and
- depositors and other general creditors cannot obtain or assert claims against the assets comprising the trust accounts in the event the bank is liquidated or wound-up.

The bank must make a special reserve of 25% or more of fees from each unspecified money trust account for which a bank guarantees the principal amount and a fixed rate of interest until the total reserve for that account equals 5% of the trust amount.

Under the Financial Investment Services and Capital Markets Act, a bank with a trust business license (such as Kookmin Bank) is permitted to offer both specified money trust account products and unspecified money trust account products. However, pursuant to guidelines from regulatory authorities that discourage the sale of unspecified money trust account products, sales of such products have generally been suspended.

Credit Card Business

General

In order to enter the credit card business, a company must obtain a license from the Financial Services Commission. Credit card businesses are governed by the Specialized Credit Financial Business Act, which sets forth specific requirements with respect to the credit card business as well as generally prohibiting unsound business practices relating to the credit card business which may infringe on the rights of credit card holders or negatively affect the soundness of the credit card industry. Credit card companies, including our wholly-owned subsidiary, KB Kookmin Card Co., Ltd., are regulated by the Financial Services Commission and the Financial Supervisory Service.

Disclosure and Reports

Under the Specialized Credit Financial Business Act and the regulations thereunder, a credit card company is required to disclose on a periodic and on-going basis certain material matters and events. In addition, a credit card company must submit periodic reports with respect to its results of operations to the Governor of the Financial Supervisory Service, in accordance with the guidelines of the Financial Supervisory Service.

Restrictions on Funding

Under the Specialized Credit Financial Business Act and the regulations thereunder, a credit card company must ensure that its total assets do not exceed an amount equal to six times its equity capital and that the ratio of its adjusted equity capital to its adjusted total assets is not less than 8.0%. However, if a credit card company is unable to comply with such limit upon the occurrence of unavoidable events, such as drastic changes in the domestic and global financial markets, such limit may be adjusted through a resolution of the Financial Services Commission.

Risk of Loss Due to Lost, Stolen, Forged or Altered Credit Cards

Under the Specialized Credit Financial Business Act, a credit card company is liable for any loss arising from the unauthorized use of credit cards or debit cards after it has received notice from the holder of the loss or theft of the card. A credit card company is also responsible for any losses resulting from the use of forged or

altered credit cards, debit cards and pre-paid cards. A credit card company may, however, transfer all or part of this latter risk of loss to holders of credit card in the event of willful misconduct or gross negligence by holders of credit card if the terms and conditions of the agreement entered between the credit card company and members of such cards specifically provide for that transfer.

For these purposes, disclosure of a customer's password that is made intentionally or through gross negligence, or the transfer of or giving as collateral of the credit card or debit card, is considered willful misconduct or gross negligence. However, a disclosure of a cardholder's password that is made under irresistible force or threat to cardholder or his/her relatives' life or health will not be deemed as willful misconduct or negligence of the cardholder.

Each credit card company must institute appropriate measures to fulfill these obligations, such as establishing provisions, purchasing insurance or joining a cooperative association.

Pursuant to the Enforcement Decree to Specialized Credit Financial Business Act, a credit card company will be liable for any losses arising from loss or theft of a credit card (which was not from the holder's willful misconduct or negligence) during the period beginning 60 days before the notice by the holder to the credit card company.

Pursuant to the Specialized Credit Financial Business Act, the Financial Services Commission may either restrict the limit or take other necessary measures against the credit card company with respect to such matters as the maximum limits on the amount per credit card, details of credit card terms and conditions, management of credit card merchants and collection of claims, including the following:

- maximum limits for cash advances on credit cards;
- use restrictions on debit cards with respect to per day or per transaction usage;
- aggregate issuance limits and maximum limits on the amount per card on pre-paid cards; and
- other matters prescribed by the Enforcement Decree to the Specialized Credit Financial Business Act.

Lending Ratio in Ancillary Business

Pursuant to the Enforcement Decree to the Specialized Credit Financial Business Act, a credit card company must maintain an aggregate quarterly average outstanding lending balance to credit cardholders (including cash advances and credit card loans, but excluding restructured loans) no greater than the sum of (i) its aggregate quarterly average outstanding credit card balance arising from the purchase of goods and services and (ii) the aggregate quarterly debit card transaction volume.

Issuance of New Cards and Solicitation of New Cardholders

The Enforcement Decree to the Specialized Credit Financial Business Act establishes the conditions under which a credit card company may issue new cards and solicit new members. New credit cards may be issued only to the following persons:

- persons who are at least 19 years old when they apply for a credit card;
- persons whose capability to pay bills as they come due has been verified using standards established by the credit card company; and
- in the case of minors who are 18 years old, persons who submit documents evidencing employment as of the date of the credit card application, such as an employment certificate, or persons for whom the issuance of a credit card is necessitated by governmental policies, such as financial aid.

In addition, a credit card company may not solicit credit card members by:

- providing economic benefits or promising to provide economic benefits in excess of 10% of the annual credit card fee (in the case of credit cards with annual fees that are less than the average of the annual fees charged by major credit cards in Korea, the annual fee will be deemed to be equal to such average annual fee) in connection with issuing a credit card; provided, however, that providing economic benefits or promising to provide economic benefits not exceeding the amount of the annual credit card fee to an applicant that becomes a credit card member through an online platform is permissible;
- soliciting applicants on roads, public places or along corridors used by the general public;
- soliciting applicants through visits, except those visits made upon prior consent and visits to a business area;
- soliciting applicants through the Internet without verifying whether the applicant is who he or she purports to be, by means of a certified digital signature under the Digital Signature Act; and
- soliciting applicants through pyramid sales methods.

Compliance Rules on Collection of Receivable Claims

Pursuant to Supervisory Regulation on the Specialized Credit Financial Business, a credit card company may not:

- exert violence or threaten violence;
- inform a related party (a guarantor of the debtor, blood relative or fiancé(e) of the debtor, a person living in the same household as the debtor or a person working in the same workplace as the debtor) of the debtor's obligations without just cause;
- provide false information relating to the debtor's obligation to the debtor or his or her related parties;
- threaten to sue or sue the debtor for fraud despite lack of affirmative evidence to establish that the debtor has submitted forged or false documentation with respect to his or her ability to make payment;
- visit or telephone the debtor during late evening hours (between the hours of 9:00 p.m. and 8:00 a.m.); and
- utilize other uncustomary methods to collect the receivables that interfere with the privacy or the peace in the workplace of the debtor or his or her related parties.

Principal Regulations Applicable to Insurance Companies

General

Under the Insurance Business Act, a company seeking to engage in the insurance business in Korea is required to obtain business authorizations and licenses from the Financial Services Commission, and such company is required to comply with the Insurance Business Act and the regulations thereunder. These rules and regulations cover, among other things: (i) the requirements for obtaining business authorizations and licenses to operate an insurance company; (ii) the scope of business an insurance company may undertake; (iii) the operations of an insurance company, including its asset management activities; (iv) the methods of insurance solicitation; (v) the supervision of the insurance business; and (vi) the disciplinary actions for violation of the Insurance Business Act, which may include revocation of a license, imprisonment, suspension of operations, fines, surcharges and penalties.

The Financial Services Commission has the authority to oversee matters involving licenses necessary for, and supervision of, the operation of an insurance business. Pursuant to the Regulation on Supervision of Insurance Business and the Regulation on Corporate Governance of Financial Companies, the Financial Services

Commission sets forth detailed criteria for obtaining the authorization necessary to engage in the insurance business, as well as various comprehensive standards required to be met by an insurance company. The Financial Services Commission entrusts the Financial Supervisory Service with certain matters pursuant to the Regulation on Supervision of Insurance Business, as specified under the Detailed Enforcement Regulations on Insurance Supervision.

Since an insurance company falls within the scope of a financial institution under the Act on the Structural Improvement of the Financial Industry, special provisions thereunder apply to an insurance company in the event (i) it merges with, or converts into, another financial institution, (ii) it becomes bankrupt or insolvent or is dissolved or (iii) members of its business group acquire shares of another company in excess of a certain percentage. In addition, an insurance company that offers and sells investment-type insurance products, such as variable insurance products, and manages assets under special accounts for variable insurance policies is deemed a financial investment company under the Financial Investment Services and Capital Markets Act. Such insurance company is subject to certain provisions under the Financial Investment Services and Capital Markets Act, such as regulations on the control of conflicts of interest as well as the establishment and maintenance of firewalls for asset management of special accounts related to variable insurance policies. In addition, pursuant to the Foreign Exchange Transactions Act, an insurance company is required to obtain prior approval from the Ministry of Economy and Finance, the Bank of Korea, the Financial Supervisory Service or a foreign exchange bank and may be required to file periodic reports if the company engages in any of the following: (a) a transaction involving a foreign currency; (b) a transaction with a non-resident involving either the Won or a foreign currency; (c) a transaction that requires an outgoing overseas payment; (d) a transaction that requires receipt of an overseas payment; and (e) any other transaction prescribed under the Foreign Exchange Transactions Act. Furthermore, an insurance company is required to comply with the Act on the Corporate Governance of Financial Companies.

Scope of Business of Insurance Companies

Under the Insurance Business Act, an insurance company is prohibited from concurrently operating a life insurance business and a non-life insurance business (including property, marine and cargo and liability insurance), provided that an insurance company may concurrently operate a “type three” insurance business (including casualty, disease and health care insurance) and provide reinsurance to other insurance companies. However, limited cross-selling of life insurance and non-life insurance products by insurance sales agents working for life insurance or non-life insurance companies in Korea is permitted by the Financial Services Commission.

Upon approval by the Financial Services Commission, a life insurance company may operate (i) a life insurance business, (ii) a pension insurance (including retirement insurance) business and (iii) type three insurance businesses, while a non-life insurance company may operate (i) various types of non-life insurance businesses (including property, marine and cargo, automobile, guarantee, reinsurance and certain other enumerated non-life insurance as designated under the Enforcement Decree of the Insurance Business Act as well as liability insurance) and (ii) type three insurance businesses.

Both life insurance and non-life insurance companies may also operate certain financial businesses and incidental businesses designated under the Enforcement Decree of the Insurance Business Act.

Requirements Relating to Insurance Solicitation

The Insurance Business Act limits entities that may engage in insurance solicitation to insurance sales agents, insurance agencies (including those of financial institutions), insurance brokers and officers and employees of an insurance company. Any person or entity wishing to act as an insurance sales agent, insurance agency (including those of financial institutions) or insurance broker must register with the Financial Services Commission and report promptly to the Financial Services Commission the occurrence of certain changes prescribed under the Insurance Business Act.

Insurance brochures used for insurance solicitation must clearly specify the terms required under the Insurance Business Act in an easy-to-understand manner. Where an insurance company or any person engaging in insurance solicitation persuades an ordinary policyholder to enter into an insurance contract, it must explain to such ordinary policyholder about certain critical matters of the insurance contract prescribed by the Enforcement Decree of the Insurance Business Act, including insurance premiums, coverage scope and restrictions on the payment of insurance proceeds, in a manner the policyholder can easily understand.

Where an insurance company or any person engaging in insurance solicitation advertises an insurance product, it must include the details of such insurance product in such advertisement as prescribed under the Insurance Business Act and must not engage in any act which, among other things, may lead to a misunderstanding that such insurance product would provide a large amount of insurance proceeds by emphasizing selective terms and conditions of such product or introducing cases where a large amount of insurance proceeds were paid.

In connection with the execution or solicitation of an insurance contract, any person engaging in insurance solicitation must not engage in any act prohibited under the Insurance Business Act, including acts of providing a policyholder with false information regarding an insurance product and acts intended to interrupt or prevent a policyholder from notifying an insurance company of an important matter relevant to an insurance policy.

Any person engaging in insurance solicitation is prohibited from providing special benefits (including, but not limited to, cash over a certain amount and discounts on insurance premiums) in connection with the execution of an insurance contract unless such special benefits are stipulated in the underlying documents for such insurance product. In addition, an insurance company is prohibited from entrusting any person other than those who are eligible under the Insurance Business Act to engage in insurance solicitation or paying any compensation to any ineligible persons for his or her insurance solicitation. The Insurance Business Act and the Enforcement Decree of the Insurance Business Act also prescribe in detail certain practices that insurance agencies of financial institutions are restricted from engaging in, including, but not limited to:

- offering additional services, such as providing a loan, on condition that the individual purchase a life insurance policy; and
- including insurance premiums in loan transactions without the prior consent of the borrower.

The Insurance Business Act permits insurance sales agents working for life insurance companies to cross-sell non-life insurance products of one non-life insurance company, and insurance sales agents working for non-life insurance companies are correspondingly permitted to cross-sell the life insurance products of one life insurance company.

Capital Adequacy

Pursuant to the risk-based capital adequacy requirements implemented by the Financial Services Commission, insurance companies in Korea are required to maintain a statutory ratio of available regulatory capital to risk-weighted assets of not less than 100% on a consolidated basis (although a risk-based capital adequacy ratio of not less than 150% is still considered standard in the Korean insurance industry). Risk based capital adequacy requirements require insurance companies to hold adequate capital to cover their exposures to interest rate risk, market risk, credit risk and operational risk as well as insurance risk by reflecting such risks in their calculation of risk-weighted assets. The statutory risk-based capital adequacy ratio for insurance companies is computed by dividing available capital by required capital. Available capital of an insurance company is computed as the sum of, among other things, capital stock, reserve for policyholder dividends and bad debt allowance after deducting, among other things, deferred acquisition costs, goodwill, and prepaid expenses. Required capital is computed based on the sum of (i) the square root of the sum of the squares of (w) insurance risk amounts, (x) interest rate risk amounts, (y) credit risk amounts and (z) market risk amounts, and (ii) the operating risk amounts, with each risk amount being calculated in accordance with the detailed criteria set forth

under the Regulation on Supervision of Insurance Business and the Detailed Enforcement Regulations on Insurance Supervision.

The Financial Supervisory Service has announced that it plans to introduce a new regulatory solvency regime for insurance companies by 2022 based on the International Capital Standard developed by the International Association of Insurance Supervisors, which would be similar in substance to the Solvency II Directive of the European Union. The Solvency II Directive, which has been in effect in the European Union since January 1, 2016, is a comprehensive program of regulatory requirements for insurance companies, covering authorization, corporate governance, supervisory reporting, public disclosure and risk assessment and management, as well as solvency. Under the Financial Supervisory Service's planned new solvency regime in Korea, among other things, insurance contract liabilities are expected to be measured based on market value, rather than book value, which would require a number of insurance companies in Korea with a large portfolio of high guaranteed rate of return products to obtain additional capital to meet their capital adequacy requirements. The Financial Supervisory Service has also announced its plans to implement a series of incremental changes to the calculation methodology for the risk-based capital adequacy ratio of insurance companies, as interim measures. Such changes implemented in 2017 included increasing the maximum statutory duration of insurance liabilities recognized for purposes of such calculation, as well as reducing the coefficient applied in calculating interest rate risk and adjusting the methods used to assess the risk of guaranteed benefits of variable insurance policies. The details of the new solvency regime in Korea have not yet been finalized and are likely to be further amended in the future.

Regulations on Class Actions Regarding Securities

The Law on Class Actions Regarding Securities was enacted as of January 20, 2004 and last amended on May 28, 2013. The Law on Class Actions Regarding Securities governs class actions suits instituted by one or more representative plaintiff(s) on behalf of 50 or more persons who claim to have been damaged in a capital markets transaction involving securities issued by a listed company in Korea.

Applicable causes of action with respect to such suits include:

- claims for damages caused by misleading information contained in a securities statement;
- claims for damages caused by the filing of a misleading business report, semi-annual report, or quarterly report;
- claims for damages caused by insider trading or market manipulation; and
- claims instituted against auditors for damages caused by accounting irregularities.

Any such class action may be instituted upon approval from the presiding court and the outcome of such class action will have a binding effect on all potential plaintiffs who have not joined the action, with the exception of those who have filed an opt out notice with such court.

Financial Investment Services and Capital Markets Act

The Financial Investment Services and Capital Markets Act, which became effective in February 2009, regulates and governs the financial investment business in Korea. The entities that regulate and supervise financial investment companies are the Financial Services Commission, the Financial Supervisory Service and the Securities and Futures Commission.

Under the Financial Investment Services and Capital Markets Act, a company must obtain a license from the Financial Services Commission to commence a financial investment business such as a brokerage business, a dealing business or an underwriting business, or register with the Financial Services Commission to commence a financial investment business such as an investment advisory business or a discretionary investment management

business. A bank is permitted to engage in certain types of financial investment business as specified under the Enforcement Decree of the Bank Act. Prior to commencing a financial investment business, a bank must file a report with the Financial Services Commission and apply for a license pursuant to the Financial Investment Services and Capital Markets Act.

Consolidation of Capital Markets-Related Laws

Prior to the effectiveness of the Financial Investment Services and Capital Markets Act, there were separate laws regulating various types of financial institutions depending on the type of financial institution (for example, securities companies, futures companies, trust business companies and asset management companies) and subjecting financial institutions to different licensing and ongoing regulatory requirements (for example, the Korean Securities Exchange Act, the Futures Business Act and the Indirect Investment Asset Management Business Act). By applying one uniform set of rules to the same financial business having the same economic function, the Financial Investment Services and Capital Markets Act attempts to improve and address issues caused by the previous regulatory system under which the same economic function relating to capital markets-related businesses are governed by multiple regulations. To this end, the Financial Investment Services and Capital Markets Act categorizes capital markets-related businesses into six different functions, as follows:

- dealing, trading and underwriting of “financial investment products” (as defined below);
- brokerage of financial investment products;
- establishment of collective investment schemes and the management thereof;
- investment advice;
- discretionary investment management; and
- trusts (together with the five businesses set forth above, the “Financial Investment Businesses”).

Accordingly, all financial businesses relating to financial investment products have been reclassified as one or more of the Financial Investment Businesses described above, and financial institutions are subject to the regulations applicable to their relevant Financial Investment Businesses, regardless of the type of the financial institution. For example, under the Financial Investment Services and Capital Markets Act, derivative businesses conducted by former securities companies and future companies will be subject to the same regulations.

Banking and insurance businesses are not subject to the Financial Investment Services and Capital Markets Act and will continue to be regulated under separate laws. However, they may become subject to the Financial Investment Services and Capital Markets Act if their activities involve any financial investment businesses requiring a license pursuant to the Financial Investment Services and Capital Markets Act.

Comprehensive Definition of Financial Investment Products

In an effort to encompass the various types of securities and derivative products available in the capital markets, the Financial Investment Services and Capital Markets Act sets forth a comprehensive term “financial investment products,” defined to mean all financial products with a risk of loss in the invested amount (in contrast to “deposits,” which are financial products for which the invested amount is protected or preserved). Financial investment products are classified into two major categories: (i) “securities” (financial investment products in which the risk of loss is limited to the invested amount) and (ii) “derivatives” (financial investment products in which the risk of loss may exceed the invested amount). As a result of the general and broad definition of financial investment products, a variety of financial products may be defined as a financial investment product, which would enable Financial Investment Companies (defined below) to handle a broader range of financial products. Under the Financial Investment Services and Capital Markets Act, entities formerly licensed as securities companies, asset management companies, futures companies and other entities engaging in any Financial Investment Business are classified as “Financial Investment Companies.”

New License System and the Conversion of Existing Licenses

Under the Financial Investment Services and Capital Markets Act, Financial Investment Companies are able to choose the type of Financial Investment Business in which to engage (through a “check the box” method set forth in the relevant license application), by specifying the desired (i) Financial Investment Business, (ii) financial investment product and (iii) target customers to which financial investment products may be sold or distributed (that is, general investors or professional investors). Licenses will be issued under the specific business sub-categories described in the foregoing sentence. For example, it would be possible for a Financial Investment Company to obtain a license to engage in the Financial Investment Business of (i) dealing (ii) over the counter derivatives products (iii) only with sophisticated investors.

Financial institutions that engage in business activities constituting a Financial Investment Business are required to take certain steps, such as renewal of their license or registration, in order to continue engaging in such business activities. Financial institutions that are not licensed Financial Investment Companies are not permitted to engage in any Financial Investment Business, subject to the following exceptions: (i) banks and insurance companies are permitted to engage in certain categories of Financial Investment Business for a period not exceeding six months commencing on the effective date of the Financial Investment Services and Capital Markets Act; and (ii) other financial institutions that engaged in any Financial Investment Business prior to the effective date of the Financial Investment Services and Capital Markets Act (whether in the form of a concurrent business or an incidental business) are permitted to continue such Financial Investment Business for a period not exceeding six months commencing on the effective date of the Financial Investment Services and Capital Markets Act.

Expanded Business Scope of Financial Investment Companies

Under the previous regulatory regime in Korea, it was difficult for a financial institution to explore a new line of business or expand upon its existing line of business. For example, previously a financial institution licensed as a securities company generally was not permitted to engage in the asset management business. In contrast, under the Financial Investment Services and Capital Markets Act, pursuant to the integration of its current businesses involving financial investment products into a single Financial Investment Business, a licensed Financial Investment Company is permitted to engage in all types of Financial Investment Businesses, subject to satisfying relevant regulations (for example, maintaining an adequate “Chinese Wall,” to the extent required). As to incidental businesses (that is, a financial related business which is not a Financial Investment Business), the Financial Investment Services and Capital Markets Act generally allows a Financial Investment Company to freely engage in such incidental businesses by shifting away from the previous positive-list system towards a more comprehensive system. In addition, a Financial Investment Company is permitted to (i) outsource marketing activities by contracting “introducing brokers” that are individuals but not employees of the Financial Investment Company, (ii) engage in foreign exchange businesses related to their Financial Investment Business and (iii) participate in the settlement network, pursuant to an agreement among the settlement network participants.

Improvement in Investor Protection Mechanism

While the Financial Investment Services and Capital Markets Act widens the scope of financial businesses in which financial institutions are permitted to engage, a more rigorous investor-protection mechanism is also imposed upon Financial Investment Companies dealing in financial investment products. The Financial Investment Services and Capital Markets Act distinguishes general investors from sophisticated investors and provides new or enhanced protections to general investors. For instance, the Financial Investment Services and Capital Markets Act expressly provides for a strict know-your-customer rule for general investors and imposes an obligation that Financial Investment Companies should market financial investment products suitable to each general investor, using written explanatory materials. Under the Financial Investment Services and Capital Markets Act, a Financial Investment Company could be liable if a general investor proves (i) damage or losses

relating to such general investor's investment in financial investment products solicited by such Financial Investment Company and (ii) the absence of the requisite written explanatory materials, without having to prove fault or causation. With respect to conflicts of interest between Financial Investment Companies and investors, the Financial Investment Services and Capital Markets Act expressly requires (i) disclosure of any conflict of interest to investors and (ii) mitigation of conflicts of interest to a comfortable level or abstention from the relevant transaction.

Other Changes to Securities / Fund Regulations

The Financial Investment Services and Capital Markets Act changed various securities regulations including those relating to public disclosure, insider trading and proxy contests, which were previously governed by the Korean Securities Exchange Act. For example, the 5% and 10% reporting obligations under the Korean Securities Exchange Act have become more stringent. The Indirect Investment and Asset Management Business Act strictly limited the kind of vehicles that could be utilized under a collective investment scheme, restricting the range of potential vehicles to trusts and corporations, and the type of funds that can be used for investments. However, under the Financial Investment Services and Capital Markets Act, these restrictions have been significantly liberalized, permitting all vehicles that may be created under Korean law, such as limited liability companies or partnerships, to be used for the purpose of collective investments and allowing investment funds to be more flexible as to their investments.

Act on the Corporate Governance of Financial Companies

The Act on the Corporate Governance of Financial Companies, which became effective on August 1, 2016, was enacted to address the need for strengthened regulations on corporate governance of financial institutions and to serve as a uniform set of regulations on corporate governance matters applicable to financial institutions across a variety of industry sectors. It contains several key measures, including (i) eligibility requirements for officers of financial institutions and standards for determining whether officers of financial institutions may hold concurrent positions in other companies, (ii) standards for composition and operation of the board of directors of financial institutions, (iii) standards for establishment, composition and operation of various committees of the board of directors of financial institutions, (iv) regulations on internal control and risk management, (v) requirements and procedures for the approval of a change of major shareholders and (vi) special regulations to protect the rights of minority shareholders of financial institutions.

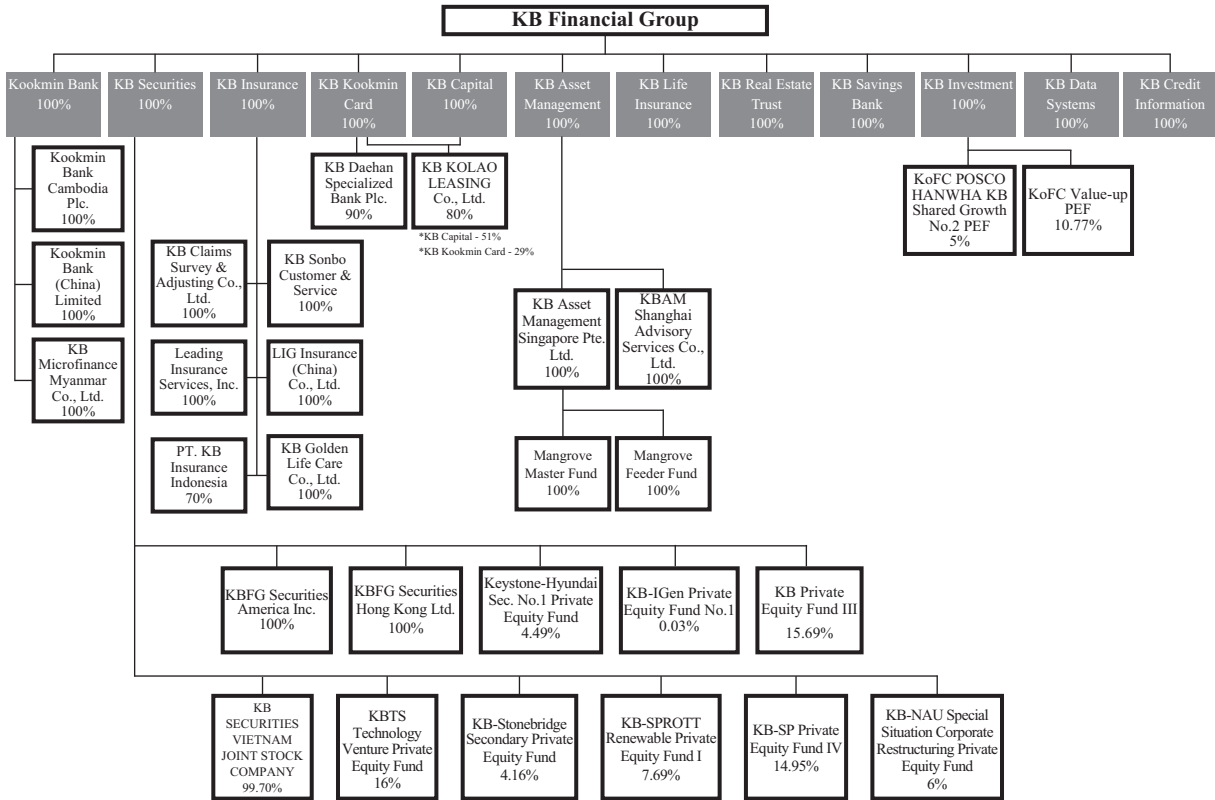
Environment

In 2015, our operations became subject to the Framework Act on Low Carbon, Green Growth, which was enacted in April 2010, and the Greenhouse Gas Emissions Trading System Act, which was enacted in May 2012. The Framework Act on Low Carbon, Green Growth and the regulations thereunder establish the greenhouse gas and energy target management system, which requires companies to establish and achieve greenhouse gas emissions and energy consumption targets on an annual basis. The Greenhouse Gas Emissions Trading System Act and the regulations thereunder establish the Korean emissions trading scheme, under which companies are allocated a limited volume of emission allowances and are allowed to trade excess emission allowances.

We actively seek to engage in environmentally responsible management of our operations. We have developed a program for our operations to achieve energy efficiency objectives and reduce our greenhouse gas emissions to lessen our impact on the environment.

Item 4.C. Organizational Structure

The following chart provides an overview of our structure, including our significant subsidiaries and our ownership of such subsidiaries as of March 31, 2020:



Our largest subsidiary is Kookmin Bank, the assets of which represented approximately 74.7% of our total assets as of December 31, 2019. The following table provides summary information for our operating subsidiaries that are consolidated in our consolidated financial statements as of and for the year ended December 31, 2019, including their consolidated total assets, operating revenue, profit (loss) and total equity:

<u>Subsidiaries</u>	<u>Total Assets</u>	<u>Operating Revenue</u>	<u>Profit (Loss)</u>	<u>Total Equity</u>
	(in millions of Won)			
Kookmin Bank	₩387,425,038	₩20,817,431	₩2,439,079	₩29,004,233
KB Securities Co., Ltd.	47,816,512	8,053,363	257,893	4,684,654
KB Insurance Co., Ltd.	36,552,368	12,661,927	234,327	3,862,908
KB Kookmin Card Co., Ltd.	22,990,114	3,102,186	316,546	4,064,919
KB Life Insurance Co., Ltd.	9,801,905	1,506,417	15,963	615,338
KB Asset Management Co., Ltd.	310,018	148,780	48,899	195,242
KB Capital Co., Ltd.	11,190,568	931,694	117,028	1,154,491
KB Savings Bank Co., Ltd.	1,361,032	92,435	16,301	212,407
KB Real Estate Trust Co., Ltd.	377,938	119,899	61,713	292,806
KB Investment Co., Ltd.	756,972	99,822	11,311	214,751
KB Credit Information Co., Ltd.	27,834	38,278	(256)	14,898
KB Data Systems Co., Ltd.	41,690	158,067	4,664	20,691

Further information regarding our subsidiaries is provided below:

- *Kookmin Bank* was established in Korea in 2001 as a result of the merger of the former Kookmin Bank (established in 1963) and H&CB (established in 1967). Kookmin Bank provides a wide range of banking and other financial services to individuals, small- and medium-sized enterprises and large corporations in Korea. As of December 31, 2019, Kookmin Bank was one of the largest commercial banks in Korea based upon total assets (including loans) and deposits. As of December 31, 2019, Kookmin Bank had approximately 31.5 million customers, with 1,051 branches nationwide.
- *KB Securities Co., Ltd.*, formerly known as Hyundai Securities Co., Ltd., was established in Korea in 1962 to provide various securities brokerage and investment banking services. In 2016, we acquired 100% of the outstanding shares of Hyundai Securities, merged another subsidiary, KB Investment & Securities Co., Ltd., with and into Hyundai Securities and changed the name of the surviving entity to KB Securities Co., Ltd.
- *KB Insurance Co., Ltd.*, formerly known as LIG Insurance Co., Ltd., was established in Korea in January 1959 to provide non-life insurance products. KB Insurance became our wholly-owned subsidiary in July 2017 after a series of stock purchases, a tender offer and a comprehensive stock swap.
- *KB Kookmin Card Co., Ltd.* was established in March 2011 as a separate entity upon the completion of a horizontal spin-off of Kookmin Bank's credit card business, to provide credit card services.
- *KB Life Insurance Co., Ltd.* was established in Korea in April 2004 to provide life insurance and wealth management products primarily through our branch network.
- *KB Asset Management Co., Ltd.* was established in Korea in April 1988 as a subsidiary of Citizens Investment Trust Company to provide investment advisory services.
- *KB Capital Co., Ltd.*, which provides leasing services and installment finance services, was formerly known as Woori Financial Co., Ltd. and was acquired by us in March 2014. KB Capital became our wholly-owned subsidiary in July 2017 after a tender offer followed by a comprehensive stock swap.
- *KB Savings Bank Co., Ltd.* was established in Korea in January 2012 to provide small-loan finance services. KB Savings Bank was established in connection with our purchase of assets and assumption of liabilities of Jeil Savings Bank in January 2012. We acquired Yehansoul Savings Bank, which

provided small-loan finance services, in September 2013 and merged it with KB Savings Bank in January 2014, with KB Savings Bank as the surviving entity.

- *KB Real Estate Trust Co., Ltd.* was established in Korea in December 1996 to provide real estate development and brokerage services by managing trusts related to the real estate industry.
- *KB Investment Co., Ltd.* was established in Korea in March 1990 to invest in and finance small- and medium-sized enterprises.
- *KB Credit Information Co., Ltd.* was established in Korea in October 1999 to collect delinquent loans and to check credit history.
- *KB Data Systems Co., Ltd.* was established in Korea in September 1991 to provide software services to us and other financial institutions.

Item 4.D. Property, Plants and Equipment

Our registered office and corporate headquarters are located at 26, Gukjegeumyung-ro 8-gil, Yeongdeungpo-gu, Seoul 07331, Korea. The following table presents information regarding certain of our properties in Korea:

Type of facility/building	Location	Area (square meters)
Registered office and corporate headquarters and Kookmin Bank headquarters	26, Gukjegeumyung-ro 8-gil, Yeongdeungpo-gu, Seoul 07331	5,354
KB Kookmin Card headquarters building	Jongno-gu, Seoul	3,923
Kookmin Bank training institute	Ilsan	207,560
Kookmin Bank training institute	Daecheon	4,158
Kookmin Bank training institute	Sokcho	15,559
Kookmin Bank training institute	Cheonan	196,649
Kookmin Bank IT center	Gangseo-gu, Seoul	13,116
Kookmin Bank IT center	Yeouido, Seoul	5,928
Kookmin Bank IT center	Yeouido, Seoul	2,006
Kookmin Bank IT center	Gimpo	13,144
Kookmin Bank support center	Seongbuk-gu, Seoul	9,939
KB Securities training institute	Kiheung-gu, Yongin	64,600

In addition, we entered into a land purchase agreement in March 2016 to purchase a site of approximately 4,727 square meters located in Yeouido, Seoul, on which we plan to construct a new headquarters building for Kookmin Bank (with a floor space of approximately 67,683 square meters). We anticipate that our total capital expenditures for the construction of the building, which is scheduled to be completed in August 2020, will amount to approximately W425 billion, of which an aggregate amount of W207 billion was incurred as of December 31, 2019.

As of December 31, 2019, we had a countrywide network of 1,051 banking branches and sub-branches, as well as 475 branches and sub-branches and 201 representative offices for our other operations including our credit card, securities brokerage, insurance and consumer finance businesses. Approximately one-fifth of these facilities are housed in buildings owned by us, while the remaining branches are leased properties. See “Item 4.B. Business Overview—Capital Markets Activities and International Banking/Finance—International Banking/Finance” for a list of our overseas subsidiaries, branches and representative and liaison offices in operation as of December 31, 2019. Kookmin Bank, Gurgaon Representative Office in India converted to Kookmin Bank, Gurugram Branch in February 2019. Kookmin Bank, Hanoi Representative Office is currently being liquidated. Lease terms are generally from two to three years and seldom exceed five years. Kookmin Bank International Ltd., previously one of our operating subsidiaries, was converted to a branch in London in May 2018. We do not own any material properties outside of Korea.

The net carrying amount of all the properties owned by us at December 31, 2019 was ₩3,934 billion.

Item 4A. UNRESOLVED STAFF COMMENTS

We do not have any unresolved comments from the U.S. Securities and Exchange Commission staff regarding our periodic reports under the Securities Exchange Act of 1934, as amended, or the Exchange Act.

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Item 5.A. *Operating Results*

Overview

The following discussion is based on our consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB. The consolidated financial statements include the accounts of subsidiaries over which substantive control is exercised through majority ownership of voting stock and/or other means. Investments in jointly controlled entities and associates (which are companies over which we have the ability to exercise significant influence) are accounted for by the equity method of accounting.

Trends in the Korean Economy

Our financial position and results of operations have been and will continue to be significantly affected by financial and economic conditions in Korea. In recent years, commercial banks, consumer finance companies and other financial institutions in Korea have made significant investments and engaged in aggressive marketing in retail lending (including mortgage and home equity loans), leading to substantially increased competition in this segment. From the second half of 2016 to 2019, the Korean government introduced various measures to tighten regulations on mortgage lending and housing subscription in response to the rapid growth in consumer debt and concerns over speculative investments in real estate in certain areas. Notwithstanding such measures, demand for residential property in certain areas, including Seoul, continued to increase through the end of 2019, and accompanied by an increase in the prices of such residential property, our portfolio of retail loans increased from ₩146,150 billion as of December 31, 2017 to ₩158,807 billion as of December 31, 2018 and ₩166,307 billion as of December 31, 2019. Nevertheless, a decrease in housing prices as a result of the implementation of such measures, together with the high level of consumer debt and deteriorating domestic and global economic conditions, could result in declines in consumer spending and reduced economic growth, which may lead to increases in delinquency levels of our portfolio of retail loans. In 2019, we recorded charge-offs of ₩443 billion and provisions for loan losses of ₩515 billion in respect of our retail loan portfolio, compared to charge-offs of ₩381 billion and provision for loan losses of ₩270 billion in 2018 and charge-offs of ₩342 billion and provision for loan losses of ₩233 billion in 2017. See “Item 3.D. Risk Factors—Risks relating to our retail credit portfolio.”

Our loans to small- and medium-sized enterprises increased from ₩97,379 billion as of December 31, 2017 to ₩112,487 billion as of December 31, 2019. Substantial growth in lending in Korea to small- and medium-sized enterprises in recent years, and financial difficulties experienced by such enterprises as a result of, among other things, adverse changes in economic conditions in Korea and globally (such as the ongoing COVID-19 pandemic affecting many countries worldwide, including Korea), may lead to increasing delinquencies and a deterioration in overall asset quality in the credit exposures of Korean banks to small- and medium-sized enterprises. In 2019, we recorded charge-offs of ₩18 billion in respect of our loans to small- and medium-sized enterprises, compared to charge-offs of ₩35 billion in 2018 and ₩308 billion in 2017. See “Item 3.D. Risk Factors—Risks relating to our small- and medium-sized enterprise loan portfolio—We have significant exposure to small- and medium-sized enterprises, and any financial difficulties experienced by these customers may result in a deterioration of our asset quality and have an adverse impact on us.”

The Korean economy is closely tied to, and is affected by developments in, the global economy. The overall prospects for the Korean and global economy remain uncertain. In recent years and in 2020, the global financial markets have experienced significant volatility as a result of, among other things:

- the occurrence of severe health pandemics, such as the ongoing global outbreak of the COVID-19 pandemic, or other severe health epidemics in Korea or other parts of the world, such as the Middle East Respiratory Syndrome outbreak in Korea in 2015;
- interest rate fluctuations as well as changes in policy rates by the U.S. Federal Reserve and other central banks;
- financial and social difficulties affecting many countries worldwide, in particular in Latin America and Europe;
- a deterioration in economic and trade relations between the United States and its major trading partners, including China;
- escalations in trade protectionism globally and geopolitical tensions in East Asia and the Middle East;
- the slowdown of economic growth in China and other major emerging market economies;
- increased uncertainties resulting from the United Kingdom's exit from the European Union; and
- political and social instability in various countries in the Middle East, including Syria, Iraq and Yemen.

In light of the high level of interdependence of the global economy, unfavorable changes in the global financial markets, including as a result of any of the foregoing developments, could have a material adverse effect on the Korean economy and financial markets, and in turn on our business, financial condition and results of operations. In particular, the recent global outbreak of COVID-19, which was declared a "pandemic" by The World Health Organization on March 11, 2020, has led to significant global economic and financial disruptions, including an adverse impact on international trade and business activities, sharp declines and significant volatility in the financial markets as well as decreases in interest rates worldwide.

We are also exposed to adverse changes and volatility in the global and Korean financial markets as a result of our liabilities and assets denominated in foreign currencies and our holdings of trading and investment securities, including structured products. The value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely in recent years, in particular as a result of the ongoing COVID-19 pandemic. A depreciation of the Won will increase our cost in Won of servicing our foreign currency-denominated debt, while continued exchange rate volatility may also result in foreign exchange losses for us. Furthermore, as a result of the deterioration in global and Korean economic conditions, there has been downward pressures on securities prices, including the stock prices of Korean and foreign companies in which we hold an interest. Such developments have resulted in and may lead to further trading and valuation losses on our trading and investment securities portfolio as well as impairment losses on our investments accounted for under the equity method.

As a result of the ongoing impact of the COVID-19 pandemic on the Korean and global economies and financial markets, as well as factors such as fluctuations in oil and commodity prices, interest and exchange rate fluctuations, higher unemployment, lower consumer confidence, stock market volatility, changes in fiscal and monetary policies and continued tensions with North Korea, the economic outlook for the financial services sector in Korea in 2020 and for the foreseeable future remains highly uncertain.

Acquisitions

In recent years, we have engaged in a number of acquisitions, which have affected, and may continue to affect, our results of operations and their comparability from period to period.

In March 2014, we acquired 52.02% of the outstanding shares of Woori Financial Co., Ltd., a publicly listed Korean consumer finance company, from Woori Finance Holdings Co., Ltd. for ₩280 billion, and subsequently renamed the entity KB Capital Co., Ltd. As a result, KB Capital became a consolidated subsidiary. We conducted a tender offer in May 2017, through which we acquired 5,949,300 shares of KB Capital at ₩27,500 per share, increasing our shareholding in KB Capital to 79.70%. We subsequently acquired the remaining outstanding shares of KB Capital in exchange for 2,269,057 shares of common stock of our company through a comprehensive stock swap effected in July 2017, as a result of which KB Capital became a wholly-owned subsidiary. As of December 31, 2019, KB Capital had total assets of ₩11,191 billion and total equity of ₩1,154 billion, and in 2019, its total operating income amounted to ₩932 billion and its profit for the year amounted to ₩117 billion.

In June 2015, we acquired 19.47% of the outstanding shares of LIG Insurance Co., Ltd., a publicly listed Korean non-life insurance company, from a group of individual shareholders for ₩651 billion, and subsequently renamed the entity KB Insurance Co., Ltd. In November 2015, we increased our shareholding in KB Insurance to 33.29% by acquiring its treasury shares for ₩231 billion, and in December 2016, we further increased our shareholding to 39.81% by purchasing new shares of KB Insurance for ₩171 billion in a rights offering. Subsequently, through a tender offer conducted in May 2017, we acquired 36,237,649 shares of KB Insurance at ₩33,000 per share, increasing our shareholding to 94.30%, as a result of which KB Insurance became a consolidated subsidiary. In July 2017, we effected a comprehensive stock swap to acquire the remaining outstanding shares of KB Insurance in exchange for 2,170,943 shares of common stock of our company, as a result of which KB Insurance became a wholly-owned subsidiary. In connection with our acquisition of additional shares of KB Insurance in May 2017, we recognized ₩2,434 billion of intangible assets, consisting mainly of the value of business acquired, which represents the difference between the fair value of KB Insurance's insurance contract liabilities acquired and their book value as of the acquisition date. The value of business acquired is amortized over an estimated useful life of 60 years using the declining balance method, and the related amortization expense is recorded as part of our insurance expense. See Notes 3.8 and 15 of the notes to our consolidated financial statements included elsewhere in this annual report. As of December 31, 2019, KB Insurance had total assets of ₩36,552 billion and total equity of ₩3,863 billion, and in 2019, its total operating income amounted to ₩12,662 billion and its profit for the year amounted to ₩234 billion.

In addition, in May 2016, we acquired 22.56% of the outstanding shares of Hyundai Securities Co., Ltd., a publicly listed Korean securities firm, from Hyundai Merchant Marine Co., Ltd. and other shareholders for ₩1,242 billion, and further increased our shareholding in Hyundai Securities to 29.62% in June 2016 by acquiring treasury shares of Hyundai Securities for ₩107 billion. In October 2016, we increased our shareholding in Hyundai Securities to 100% by effecting a comprehensive stock swap of the outstanding shares of Hyundai Securities for 31,759,844 newly issued shares of common stock of our company, as a result of which Hyundai Securities became a consolidated subsidiary. In connection with such comprehensive stock swap, we recognized gains on bargain purchase of ₩629 billion, representing the excess of the total identifiable net assets of Hyundai Securities over the total consideration transferred (consisting of the sum of the fair value of our holdings of Hyundai Securities shares at the time of the comprehensive stock swap and the value of our common shares issued in the comprehensive stock swap), which was recorded as part of our non-operating income for 2016. Following such transaction, we merged an existing subsidiary, KB Investment & Securities, with and into Hyundai Securities in December 2016 and changed the name of the surviving entity to KB Securities Co., Ltd. As of December 31, 2019, KB Securities had total assets of ₩47,817 billion and total equity of ₩4,685 billion, and in 2019, its total operating income amounted to ₩8,053 billion and its profit for the year amounted to ₩258 billion.

Most recently, in April 2020, we entered into a share purchase agreement to acquire all of the outstanding shares of The Prudential Life Insurance Company of Korea, Ltd., or Prudential Life Insurance, a provider of life insurance services in Korea, from Prudential Financial, Inc. for ₩2,265 billion, which amount is subject to change pending closing. The completion of such acquisition is subject to regulatory approvals and other closing conditions. As of December 31, 2019, Prudential Life Insurance had total assets of ₩21,079 billion and total

equity of ₩2,914 billion, and in 2019, its total operating revenue amounted to ₩2,260 billion and its profit for the year amounted to ₩141 billion.

Changes in Securities Values, Exchange Rates and Interest Rates

Fluctuations of exchange rates, interest rates and stock prices affect, among other things, the demand for our products and services, the value of and rate of return on our assets, the availability and cost of funding and the financial condition of our customers. The following table shows, for the dates indicated, the stock price index of all equities listed on the KRX KOSPI Market as published in the KOSPI, the Won to U.S. dollar exchange rates and benchmark Won borrowing interest rates.

	June 30, 2015	Dec. 31, 2015	June 30, 2016	Dec. 30, 2016	June 30, 2017	Dec. 28, 2017	June 29, 2018	Dec. 31, 2018	June 28, 2019	Dec. 31, 2019
KOSPI	2,074.20	1,961.31 ⁽⁴⁾	1,970.35	2,026.46 ⁽⁵⁾	2,391.79	2,467.49 ⁽⁶⁾	2,326.13	2,041.04 ⁽⁷⁾	2,130.62	2,197.67 ⁽⁸⁾
₩/US\$ exchange rates ⁽¹⁾	₩ 1,117.3	₩ 1,169.3	₩ 1,154.2	₩ 1,203.7	₩ 1,143.8	₩ 1,067.4	₩ 1,111.8	₩ 1,112.9	₩ 1,156.8	₩ 1,157.8
Corporate bond rates ⁽²⁾ ...	2.51%	2.64%	2.26%	2.79%	2.84%	3.08%	2.93%	2.58%	1.98%	1.99%
Treasury bond rates ⁽³⁾	1.79%	1.66%	1.25%	1.64%	1.70%	2.10%	2.12%	1.82%	1.47%	1.36%

(1) Represents the noon buying rate on the dates indicated.

(2) Measured by the yield on three-year Korean corporate bonds rated as A+ by the Korean credit rating agencies.

(3) Measured by the yield on three-year treasury bonds issued by the Ministry of Economy and Finance of Korea.

(4) As of December 30, 2015, the last day of trading for the KRX KOSPI Market in 2015.

(5) As of December 29, 2016, the last day of trading for the KRX KOSPI Market in 2016.

(6) As of December 28, 2017, the last day of trading for the KRX KOSPI Market in 2017.

(7) As of December 31, 2018, the last day of trading for the KRX KOSPI Market in 2018.

(8) As of December 30, 2019, the last day of trading for the KRX KOSPI Market in 2019.

Changes in Accounting Policies

Adoption of IFRS 16

IFRS 16 *Leases*, or IFRS 16, issued by the IASB in January 2016, is a new IFRS accounting standard aimed at facilitating a more faithful representation of, and improving the transparency of information relating to, lease-related assets and liabilities, and is effective for annual periods beginning on or after January 1, 2019. IFRS 16, which replaces IAS 17, introduces a single, on-balance sheet lease accounting model for lessees and requires a lessee to recognize a right-of-use asset representing the lessee's right to use the underlying leased asset and a lease liability representing the present value of the lessee's obligation to make future lease payments. We initially adopted IFRS 16 from January 1, 2019, applying the modified retrospective approach, which allows us to recognize the cumulative impact of applying IFRS 16 as an adjustment to the opening balance of our retained earnings as of January 1, 2019 with no comparative information for prior periods.

We have applied IFRS 16 in our consolidated financial statements as of and for the year ended December 31, 2019 included elsewhere in this annual report. As permitted by the transition rules of IFRS 16, our consolidated financial statements as of and for the years ended December 31, 2017 and 2018 included elsewhere in this annual report have not been restated to retroactively apply IFRS 16.

For additional information regarding IFRS 16 and the impact of its application to our consolidated financial statements, see Notes 2.1 and 44 of the notes to our consolidated financial statements.

Critical Accounting Policies

The notes to our consolidated financial statements contain a summary of our significant accounting policies, including a discussion of recently issued accounting pronouncements. Certain of these policies are critical to the portrayal of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. We discuss these critical accounting policies below.

Impairment of Loans and Allowances for Loan Losses

We evaluate our loan portfolio for impairment on an ongoing basis. We have established allowances for loan losses, which are available to absorb losses in our loan portfolio. If we believe that additions or changes to the allowances for loan losses are required, we record a provision for loan losses (as part of our provision for credit losses), which is treated as a charge against current income. Loan exposures that we deem to be uncollectible, including actual loan losses, net of recoveries of previously written-off amounts, are charged directly against the allowances for loan losses.

We have established our allowance for loan losses as of December 31, 2018 and 2019 in accordance with IFRS 9 and as of December 31, 2017 in accordance with IAS 39.

Our accounting policies under IFRS 9 for losses arising from the impairment of loans and allowances for loan losses are described in Note 3.6 of the notes to our consolidated financial statements. The impairment model under IFRS 9 requires recording of allowance for credit losses based on expected losses instead of incurred losses (as was the case under IAS 39), and recognition of any subsequent changes in expected credit losses in profit or loss. Under IFRS 9, the allowance required to be established with respect to a loan or receivable is the amount of the 12-month expected credit loss or the lifetime expected credit loss for the applicable loan or receivable, according to the three stages of credit risk deterioration since initial recognition, as follows:

- Stage 1 (loans and receivables for which credit risk has not significantly increased since initial recognition): the allowance for credit losses must cover expected credit losses due to possible defaults on the relevant loan or receivable within a 12-month period from the reporting date.
- Stage 2 (loans and receivables for which credit risk has significantly increased since initial recognition): the allowance for credit losses must cover expected credit losses from all possible defaults during the expected lifetime of the relevant loan or receivable.
- Stage 3 (credit-impaired loans and receivables): the allowance for credit losses must cover expected credit losses from all possible defaults during the expected lifetime of the relevant loan or receivable.

At the end of every reporting period, we evaluate whether the credit risk with respect to our loans and receivables, after taking into account forward-looking information, has significantly increased since the date of their initial recognition. We distinguish between loans and receivables that are individually significant (which we assess on an individual basis) and those that are not (which we assess collectively based on homogeneous credit risk profiles) in performing such evaluation, and consider factors such as the following as indicators of a significant increase in credit risk:

- payment obligations that are more than 30 days past due;
- a decline in the borrower's credit rating in excess of certain levels as compared to that at initial recognition;
- a decline in ratings below certain levels in our early warning system;
- the occurrence of a debt restructuring (except for impaired financial assets); and
- publication of credit delinquency information regarding the borrower by the Korea Federation of Banks or certain other sources.

Expected credit losses are a probability-weighted estimate of credit losses (i.e., the present value of all cash shortfalls) within 12 months of stage 1 loans or receivables and over the expected life of stages 2 and 3 loans or receivables. We measure expected credit losses by reflecting supportable information that is reasonably available at the reporting date without undue cost or effort, including information about past events, current conditions and forecasts of future economic conditions.

Our consolidated financial statements for the year ended December 31, 2019 included a total allowance for credit losses of ₩2,408 billion as of that date. Our total loan charge-offs, net of recoveries, amounted to ₩799 billion, and we recorded provisions for credit losses of ₩657 billion in 2019.

We believe that the accounting estimates related to impairment of loans and receivables and our allowance for credit losses are a “critical accounting policy” because: (1) they are highly susceptible to change from period to period based on our estimates of expected credit losses relating to our loan portfolio; and (2) any significant difference between expected credit losses on loans and receivables (as reflected in our allowance for credit losses) and actual losses on loans and receivables could require us to record additional provisions for credit losses or charge-offs which, if significant, could have a material impact on our profit. Our estimates of expected credit losses require significant management judgment regarding matters such as the significance of changes in credit risk and probability of default since initial recognition. Actual losses have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

Valuation of Financial Instruments

Our accounting policy for determining the fair value of financial instruments is described in Notes 3.3 and 6 of the notes to our consolidated financial statements.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data and, as such, the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgment to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values are discussed in Note 6.1 of the notes to our consolidated financial statements. The main assumptions and estimates which our management considers when applying a model with valuation techniques are:

- The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although judgment may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. Future cash flows may be sensitive to changes in market rates.
- Selecting an appropriate discount rate for the instrument. The determination of this rate is based on an assessment of what a market participant would regard as the appropriate spread of the rate for the instrument over the appropriate risk-free rate.
- Judgment to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective (for example, valuation of complex derivative products).

The financial instruments carried at fair value have been categorized under the three levels of the IFRS fair value hierarchy as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is a market-based measure considered from the

perspective of a market participant. As such, even when market assumptions are not readily available, our own assumptions are intended to reflect those that market participants would use in pricing the asset or liability at the measurement date.

For financial instruments traded in the over-the-counter market, we measure the fair value of such instruments as the arithmetic mean of prices obtained from Korea Asset Pricing (an affiliate of Fitch Ratings), KIS Pricing (an affiliate of Moody's Investors Service), NICE Pricing and Information and FN Pricing, all four of which are recognized as major qualified independent pricing services in Korea. There are extremely rare cases where we do not receive price quotes from all four of the pricing services described above. In such cases, we contact the pricing service which did not submit a price quote to discuss the reason why it cannot provide a price and, following such discussion, we use the arithmetic mean of only the prices obtained from the other pricing services so long as there is no reason to believe that the prices that have been submitted are inadequate. We generally do not adjust the prices we obtain from these independent pricing services, as the variance among such prices is insignificant in most cases (primarily because most of the financial instruments we hold consist of government bonds and highly-rated corporate bonds, there is a high volume of transactions in the over-the-counter market and actual transaction prices are monitored and referenced by the pricing services).

Our consolidated financial statements for the year ended December 31, 2019 included financial assets measured at fair value using a valuation technique of ₩76,736 billion, representing 74.4% of total financial assets measured at fair value, and financial liabilities measured at fair value using a valuation technique of ₩15,554 billion, representing 84.7% of total financial liabilities measured at fair value. As used herein, the fair value using a valuation technique means the fair value at Level 2 and Level 3 in the fair value hierarchy.

We believe that the accounting estimates related to the determination of the fair value of financial instruments are a "critical accounting policy" because: (1) they may be highly susceptible to change from period to period based on factors beyond our control; and (2) any significant difference between our estimate of the fair value of these financial instruments on any particular date and either their estimated fair value on a different date or the actual proceeds that we receive upon sale of these financial instruments could result in valuation losses or losses on disposal which may have a material impact on our profit. Our assumptions about the fair value of financial instruments we hold require significant judgment because actual valuations have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

Deferred Income Tax Assets

Our accounting policy for the recognition of deferred income tax assets is described in Notes 3.20 and 16 of the notes to our consolidated financial statements. The recognition of deferred income tax assets relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies.

We recognize deferred income tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, unused tax losses and unused tax credits. Deferred income tax assets are recognized only to the extent it is probable that sufficient taxable profit will be available against which those deductible temporary differences, unused tax losses or unused tax credits can be utilized. This assessment requires significant management judgment and assumptions. In determining the amount of deferred income tax assets, we use historical tax capacity and profitability information and, if relevant, forecasted operating results, based upon approved business plans, including a review of the eligible carry-forward periods, available tax planning opportunities and other relevant considerations.

Our consolidated financial statements for the year ended December 31, 2019 included deferred income tax assets and liabilities of ₩4 billion and ₩778 billion, respectively, as of that date, after offsetting of ₩1,712 billion of deferred income tax liabilities and assets.

We believe that the estimates related to our recognition and measurement of deferred income tax assets are a “critical accounting policy” because: (1) they may be highly susceptible to change from period to period based on our assumptions regarding our future profitability; and (2) any significant difference between our estimates of future profits on any particular date and estimates of such future profits on a different date could result in an income tax expense or benefit which may have a material impact on our profit from period to period. Our assumptions about our future profitability require significant judgment and are inherently subjective.

Uncertain Tax Positions

Our accounting policy for the recognition of uncertain tax positions is described in Note 3.20 of the notes to our consolidated financial statements.

We recognize our uncertain tax positions in our financial statements based on the guidance in International Accounting Standard 12, *Income Taxes*, which allows recognition of tax payments as current income tax assets to the extent it is probable that they will be recovered from the tax authorities.

We believe that the estimates related to our recognition and measurement of uncertain tax positions are a “critical accounting policy” because they are measured upon the facts and circumstances that exist as of each reporting period and involve significant management judgment. Subsequent changes in judgment based upon new information may lead to changes in recognition, derecognition and measurement of uncertain tax positions.

Results of Operations

Net Interest Income

The following table shows, for the periods indicated, the principal components of our net interest income:

	Year Ended December 31,			Percentage Change		
	2017	2018	2019	2018/2017	2019/2018	
	(in billions of Won, except percentages)			(%)		
Interest income						
Deposits at amortized cost ⁽¹⁾	₩ —	₩ 109	₩ 151	N/A ⁽⁵⁾	38.5	
Due from financial institutions (IAS 39) ⁽¹⁾	126	—	—	N/A ⁽⁵⁾	N/A ⁽⁵⁾	
Financial assets at fair value through profit or loss ⁽²⁾ . . .	—	749	704	N/A ⁽⁵⁾	(6.0)	
Financial assets at fair value through profit or loss (IAS 39)	537	—	—	N/A ⁽⁵⁾	N/A ⁽⁵⁾	
Loans	—	11,552	12,395	N/A ⁽⁵⁾	7.3	
Loans (IAS 39)	10,096	—	—	N/A ⁽⁵⁾	N/A ⁽⁵⁾	
Financial investments (debt securities) ⁽³⁾	—	1,325	1,390	N/A ⁽⁵⁾	4.9	
Financial investments (debt securities) (IAS 39) ⁽³⁾	1,160	—	—	N/A ⁽⁵⁾	N/A ⁽⁵⁾	
Total interest income	11,919	13,735	14,639	15.2	6.6	
Interest expense						
Deposits	2,345	3,042	3,481	29.7	14.4	
Debts	446	639	720	43.3	12.7	
Debentures	880	1,149	1,241	30.6	8.0	
Total interest expense	3,672	4,830	5,442	31.5	12.7	
Net interest income	₩ 8,247	₩ 8,905	₩ 9,197	8.0	3.3	
Net interest margin ⁽⁴⁾	2.27%	2.23%	2.14%			

⁽¹⁾ Consists of cash and interest-earning deposits in other banks.

⁽²⁾ Includes deposits, loans and securities at fair value through profit or loss. For information on interest income arising from such financial instruments, see Note 27 of the notes to our consolidated financial statements included elsewhere in this annual report.

- (3) Consists of our financial assets at fair value through other comprehensive income and at amortized cost (or our available-for-sale and held to maturity financial asset) portfolios. For 2018 and 2019, includes loans at fair value through other comprehensive income. For information on interest income arising from such financial instruments, see Note 27 of the notes to our consolidated financial statements included elsewhere in this annual report.
- (4) The ratio of net interest income to average interest-earning assets. See “Item 3.A. Selected Financial Data—Profitability ratios and other data.”
- (5) “N/A” means not applicable.

Comparison of 2019 to 2018

Interest income. Interest income increased 6.6% from ₩13,735 billion in 2018 to ₩14,639 billion in 2019, primarily as a result of a 7.3% increase in interest on loans, which was enhanced by a 4.9% increase in interest on financial investments. Such increase was partially offset by a 6.0% decrease in interest on financial assets at fair value through profit or loss. The average volume of our interest-earning assets increased 7.4% from ₩399,368 billion in 2018 to ₩429,046 billion in 2019, principally due to growth in our loan and financial investments portfolios. The effect of such increase was partially offset by a 3 basis point decrease in the average yields on our interest-earning assets from 3.44% in 2018 to 3.41% in 2019, which mainly reflected a decrease in the general level of interest rates in Korea commencing in the second half of 2019, despite an increase in the general level of interest rates in Korea in 2019 compared to 2018.

A substantial majority of loans that were previously classified as “loans” under IAS 39 are classified since 2018 as “loans at amortized cost” under IFRS 9, while a small portion of loans that were previously classified as “loans” under IAS 39 are classified since 2018 as “financial assets at fair value through profit or loss” or “financial investments (debt securities).” The 7.3% increase in interest on loans from ₩11,552 billion in 2018 to ₩12,395 billion in 2019 was primarily the result of:

- a 4.9% increase in the average volume of corporate loans from ₩134,938 billion in 2018 to ₩141,600 billion in 2019, which was enhanced by a 7 basis point increase in the average yields on such loans from 3.31% in 2018 to 3.38% in 2019;
- a 10.8% increase in the average volume of mortgage loans from ₩65,799 billion in 2018 to ₩72,897 billion in 2019, which was enhanced by a 3 basis point increase in the average yields on such loans from 3.03% in 2018 to 3.06% in 2019; and
- an 11.8% increase in the average volume of other consumer loans from ₩52,333 billion in 2018 to ₩58,514 billion in 2019, which was partially offset by an 18 basis point decrease in the average yields on such loans from 4.76% in 2018 to 4.58% in 2019.

The increase in the average volumes of corporate loans mainly reflected our increased marketing efforts and increased demand for such loans from corporate borrowers in Korea. The increase in the average volume of mortgage loans and other consumer loans was attributable primarily to higher demand for such loans among consumers in Korea. The increase in average yields on corporate loans and mortgage loans mainly reflected an increase in the general level of interest rates in Korea in 2019 compared to 2018. The average yields on other consumer loans decreased mainly as a result of a decrease in interest rates applicable to such loans commencing in the second half of 2019, which was reflected in such loans earlier than in other types of loans.

Overall, the average volume of our loans increased 6.9% from ₩306,710 billion in 2018 to ₩327,747 billion in 2019, while the average yields on our loans increased by 1 basis point from 3.77% in 2018 to 3.78% in 2019.

Our financial investments portfolio consists of financial assets at fair value through other comprehensive income (or available-for-sale financial assets) and financial assets at amortized cost (or held-to-maturity financial assets), including debt securities issued by government-owned or -controlled enterprises or financial institutions and debt securities issued by Korean banks and other financial institutions. A substantial majority of financial investments that were previously classified as “available-for-sale financial assets” under IAS 39 are classified

since 2018 as “financial assets at fair value through other comprehensive income” under IFRS 9, while a small portion of financial investments that were previously classified as “available-for-sale financial assets” under IAS 39 are classified since 2018 as “financial assets at fair value through profit or loss” or “financial assets at amortized cost” under IFRS 9. A substantial majority of financial investments that were previously classified as “held-to-maturity financial assets” under IAS 39 are classified since 2018 as “financial assets at amortized cost” under IFRS 9, while a small portion of financial investments that were previously classified as “held-to-maturity financial assets” under IAS 39 are classified since 2018 as “financial assets at fair value through profit or loss” under IFRS 9. The 4.9% increase in interest on financial investments from ₩1,325 billion in 2018 to ₩1,390 billion in 2019 was primarily the result of a 12.6% increase in the average volume of financial investments from ₩56,585 billion in 2018 to ₩63,699 billion in 2019, which was partially offset by a 16 basis point decrease in average yields on financial investments from 2.34% in 2018 to 2.18% in 2019. The increase in the average volume of financial investments was primarily due to an increase in our purchases of debt securities issued by Korean banks and other financial institutions. The decrease in average yields on financial investments mainly reflected a decrease in the general level of interest rates in Korea commencing in the second half of 2019, which was reflected in financial investments earlier than in other types of interest-earning assets.

The 6.0% decrease in interest on financial assets at fair value through profit or loss from ₩749 billion in 2018 to ₩704 billion in 2019 was primarily due to a 9 basis point decrease in average yields on such financial assets from 2.68% in 2018 to 2.59% in 2019, which was enhanced by a 2.7% decrease in the average volume of such financial assets from ₩27,911 billion in 2018 to ₩27,164 billion in 2019. The decrease in average yields on such financial assets mainly reflected a decrease in the general level of interest rates in Korea commencing in the second half of 2019, which was reflected in financial assets at fair value through profit or loss earlier than in other types of interest-earning assets. The decrease in the average volume of such financial assets mainly reflected our decreased purchases of such financial assets due to the lower interest rate environment in Korea commencing in the second half of 2019.

Interest expense. Interest expense increased 12.7% from ₩4,830 billion in 2018 to ₩5,442 billion in 2019 primarily due to a 14.4% increase in interest expense on deposits, which was enhanced by an 8.0% increase in interest expense on debentures and a 12.7% increase in interest expense on debts. The average volume of our interest-bearing liabilities increased 7.8% from ₩347,045 billion in 2018 to ₩374,114 billion in 2019, which principally reflected increases in the average volumes of deposits. The effect of this increase was enhanced by a 6 basis point increase in the average cost of interest-bearing liabilities from 1.39% in 2018 to 1.45% in 2019, which was driven mainly by an increase in the general level of interest rates in Korea in 2019 compared to 2018.

The 14.4% increase in interest expense on deposits from ₩3,042 billion in 2018 to ₩3,481 billion in 2019 was primarily due to a 10.5% increase in the average volume of time deposits from ₩141,021 billion in 2018 to ₩155,762 billion in 2019, which was enhanced by a 7 basis point increase in the average cost of such deposits from 1.87% in 2018 to 1.94% in 2019. The increase in the average volume of time deposits was principally due to customers’ continuing preference for low-risk products and institutions in Korea in light of increased uncertainties in domestic and global financial markets in 2019. The increase in the average cost of time deposits mainly reflected an increase in the general level of interest rates in Korea in 2019 compared to 2018. Overall, the average volume of our deposits increased 8.3% from ₩261,333 billion in 2018 to ₩283,062 billion in 2019, while the average cost of our deposits increased by 7 basis points from 1.16% in 2018 to 1.23% in 2019.

The 8.0% increase in interest expense on debentures from ₩1,149 billion in 2018 to ₩1,241 billion in 2019 was primarily due to a 9.2% increase in the average volume of debentures from ₩48,147 billion in 2018 to ₩52,574 billion in 2019, which was partially offset by a 3 basis point decrease in the average cost of debentures from 2.39% in 2018 to 2.36% in 2019. The increase in the average volume of debentures was principally due to our increased use of debentures to meet our funding needs. The decrease in the average cost of debentures mainly reflected a decrease in interest rates applicable to debentures commencing in the second half of 2019, which was reflected in debentures earlier than in other types of interest-bearing liabilities.

The 12.7% increase in interest expense on debts from ₩639 billion in 2018 to ₩720 billion in 2019 was principally attributable to a 17 basis point increase in the average cost of debts from 1.70% in 2018 to 1.87% in 2019, which was enhanced by a 2.4% increase in the average volume of debts from ₩37,565 billion in 2018 to ₩38,478 billion in 2019. The increase in the average cost of debts mainly reflected an increase in the general level of interest rates in Korea in 2019 compared to 2018, while the increase in the average volume of debts was primarily due to our increased use of debts to meet our funding needs.

Net interest margin. Net interest margin represents the ratio of net interest income to average interest-earning assets. Our overall net interest margin decreased from 2.23% in 2018 to 2.14% in 2019, as a 3.3% increase in our net interest income from ₩8,905 billion in 2018 to ₩9,197 billion in 2019 was outpaced by a 7.4% increase in the average volume of our interest-earning assets from ₩399,368 billion in 2018 to ₩429,046 billion in 2019. The growth in average interest-earning assets outpaced a 7.8% increase in average interest-bearing liabilities from ₩347,045 billion in 2018 to ₩374,114 billion in 2019, while the increase in interest income outpaced an increase in interest expense, resulting in an increase in net interest income. However, our net interest spread, which represents the difference between the average yield on our interest-earning assets and the average cost of our interest-bearing liabilities, decreased from 2.05% in 2018 to 1.96% in 2019. The decrease in our net interest spread reflected an increase in the average cost of our interest-bearing liabilities, compared to a decrease in the average yield of our interest-earning assets, primarily due to the earlier adjustment of interest rates on interest-earning assets compared to interest rates on interest-bearing liabilities in the context of a lower interest rate environment in the second half of 2019.

Comparison of 2018 to 2017

Interest income. Interest income increased 15.2% from ₩11,919 billion in 2017 to ₩13,735 billion in 2018, primarily as a result of a 14.4% increase in interest on loans, which was enhanced by a 39.3% increase in interest on financial assets at fair value through profit or loss and a 14.3% increase in interest on financial investments. The average volume of our interest-earning assets increased 10.0% from ₩363,203 billion in 2017 to ₩399,368 billion in 2018, principally due to growth in our loan and financial investments portfolios. The effect of this increase was enhanced by a 16 basis point increase in the average yields on our interest-earning assets from 3.28% in 2017 to 3.44% in 2018, which mainly reflected an increase in the general level of interest rates in Korea in 2018 compared to 2017.

The 14.4% increase in interest on loans from ₩10,096 billion in 2017 to ₩11,552 billion in 2018 was primarily the result of:

- a 9.7% increase in the average volume of corporate loans from ₩123,004 billion in 2017 to ₩134,938 billion in 2018, which was enhanced by a 9 basis point increase in the average yields on such loans from 3.22% in 2017 to 3.31% in 2018;
- a 13.0% increase in the average volume of other consumer loans from ₩46,325 billion in 2017 to ₩52,333 billion in 2018, which was enhanced by a 19 basis point increase in the average yields on such loans from 4.57% in 2017 to 4.76% in 2018;
- a 27 basis point increase in the average yields on mortgage loans from 2.76% in 2017 to 3.03% in 2018, which was enhanced by an 8.0% increase in the average volume of such loans from ₩60,944 billion in 2017 to ₩65,799 billion in 2018; and
- a 12.4% increase in the average volume of credit card receivables from ₩14,881 billion in 2017 to ₩16,725 billion in 2018, which was partially offset by a 16 basis point decrease in the average yields on such receivables from 8.45% in 2017 to 8.29% in 2018.

The increase in the average volumes of corporate loans, other consumer loans and mortgage loans was mainly due to increased demand from borrowers in anticipation of further increases in the general level of interest rates in Korea, as well as the full-year effect of the addition of such loans of KB Insurance (which

became a consolidated subsidiary in May 2017) to our loan portfolio. The increase in the average volume of credit card receivables was attributable primarily to an increase in the number of credit cards issued, as well as in the use of credit cards by our customers. The average yields on corporate loans, other consumer loans and mortgage loans increased mainly as a result of the increase in the general level of interest rates in Korea in 2018 compared to 2017, while the average yields on credit card receivables decreased primarily due to a decrease in the maximum interest rates allowed by the Korean government to be charged by credit card issuers on their credit card receivables, as well as our launch of lower interest rate credit card loan products in the second half of 2018.

Overall, the average volume of our loans increased 8.9% from ₩281,538 billion in 2017 to ₩306,710 billion in 2018, while the average yields on our loans increased by 18 basis points from 3.59% in 2017 to 3.77% in 2018.

Interest on financial assets at fair value through profit or loss under IFRS 9, compared to interest on financial assets at fair value through profit or loss under IAS 39, increased 39.3% from ₩537 billion in 2017 to ₩748 billion in 2018, primarily due to a 21.8% increase in the average volume of such financial assets from ₩22,908 billion in 2017 to ₩27,911 billion in 2018, which was enhanced by a 34 basis point increase in the average yields on such financial assets from 2.34% in 2017 to 2.68% in 2018. The increase in the average volume of such financial assets was principally due to an increase in the volume of such financial assets held by KB Securities and, to a lesser extent, the full-year effect of the addition of such financial assets of KB Insurance commencing in May 2017 to our financial assets at fair value through profit or loss portfolio. The increase in the average yields on such financial assets mainly reflected the higher interest rate environment in Korea in 2018 compared to 2017.

Interest on financial investments under IFRS 9, compared to interest on financial investments under IAS 39, increased 14.2% from ₩1,160 billion in 2017 to ₩1,325 billion in 2018, primarily due to a 15.2% increase in the average volume of such financial investments from ₩49,137 billion in 2017 to ₩56,585 billion in 2018, which was offset in part by a 2 basis point decrease in the average yields on such financial investments from 2.36% in 2017 to 2.34% in 2018. The increase in the average volume of such financial investments was principally due to the full-year effect of the addition of such financial investments of KB Insurance commencing in May 2017 to our financial investments portfolio. The decrease in the average yields on such financial investments mainly reflected a general decrease in the interest rates applicable to such financial investments in Korea commencing in the second half of 2018.

Interest expense. Interest expense increased 31.5% from ₩3,672 billion in 2017 to ₩4,830 billion in 2018 primarily due to a 29.7% increase in interest expense on deposits, which was enhanced by a 30.6% increase in interest expense on debentures and a 43.3% increase in the interest on debts. The average cost of interest-bearing liabilities increased by 22 basis points from 1.17% in 2017 to 1.39% in 2018, which was driven mainly by an increase in the general level of interest rates in Korea in 2018 compared to 2017. The effect of this increase was enhanced by a 10.5% increase in the average volume of interest-bearing liabilities from ₩314,118 billion in 2017 to ₩347,045 billion in 2018, which principally reflected increases in the average volumes of deposits and debentures.

The 29.7% increase in interest expense on deposits from ₩2,345 billion in 2017 to ₩3,042 billion in 2018 was primarily due to a 29 basis point increase in the average cost of time deposits from 1.58% in 2017 to 1.87% in 2018, which was enhanced by a 10.6% increase in the average volume of such deposits from ₩127,478 billion in 2017 to ₩141,021 billion in 2018. The increase in the average cost of time deposits mainly reflected the higher interest rate environment in Korea in 2018 compared to 2017. The increase in the average volume of time deposits was principally due to customers' continuing preference for low-risk products and institutions in Korea in light of the continuing uncertainty in financial markets in 2018. Overall, the average cost of our deposits increased by 19 basis points from 0.97% in 2017 to 1.16% in 2018, while the average volume of our deposits increased 8.3% from ₩241,286 billion in 2017 to ₩261,333 billion in 2018.

The 30.6% increase in interest expense on debentures from ₩880 billion in 2017 to ₩1,149 billion in 2018 was primarily due to a 21.1% increase in the average volume of debentures from ₩39,767 billion in 2017 to ₩48,147 billion in 2018, which was enhanced by a 17 basis point increase in the average cost of debentures from 2.22% in 2017 to 2.39% in 2018. The increase in the average volume of debentures was principally due to our increased use of debentures to meet our funding needs. The increase in the average cost of debentures mainly reflected the higher interest rate environment in Korea in 2018 compared to 2017.

The 43.3% increase in interest expense on debts from ₩446 billion in 2017 to ₩639 billion in 2018 was principally attributable to a 35 basis point increase in the average cost of debts from 1.35% in 2017 to 1.70% in 2018, which was enhanced by a 13.6% increase in the average volume of debts from ₩33,065 billion in 2017 to ₩37,565 billion in 2018. The increase in the average cost of debts mainly reflected the higher interest rate environment in Korea in 2018 compared to 2017, while the increase in the average volume of debts was primarily due to our increased use of debts to meet our funding needs.

Net interest margin. Our overall net interest margin decreased from 2.27% in 2017 to 2.23% in 2018, as an 8.0% increase in our net interest income from ₩8,247 billion in 2017 to ₩8,905 billion in 2018 was outpaced by a 10.0% increase in the average volume of our interest-earning assets from ₩363,203 billion in 2017 to ₩399,368 billion in 2018. The growth in average interest-earning assets outpaced a 10.5% increase in average interest-bearing liabilities from ₩314,118 billion in 2017 to ₩347,045 billion in 2018, while the increase in interest income outpaced an increase in interest expense, resulting in an increase in net interest income. However, our net interest spread decreased from 2.11% in 2017 to 2.05% in 2018. The decrease in our net interest spread reflected a larger increase in the average cost of our interest-bearing liabilities, relative to the increase in the average yield of our interest-earning assets, primarily due to the earlier adjustment of interest rates on interest-earning assets compared to interest rates on interest-bearing liabilities in the context of general interest rate levels in Korea which increased commencing in the second half of 2017 but started to decrease in the second half of 2018.

Provision for Credit Losses

Provision for credit losses includes provision for loan losses, provision for unused loan commitments, provision for payment guarantees, provision for financial guarantee contracts and provision for other financial assets, in each case net of reversal of provisions. For a discussion of our loan loss provisioning policy, see “Item 4.B. Business Overview—Assets and Liabilities—Loan Portfolio—Provisioning Policy.”

In accordance with the guidelines of the Financial Supervisory Service, if our provision for loan losses is deemed insufficient for regulatory purposes, we compensate for the difference by recording a regulatory reserve for credit losses, which is segregated within retained earnings. See “Item 4.B. Business Overview—Assets and Liabilities—Loan Portfolio—Regulatory Reserve for Credit Losses” and Note 26.5 of the notes to our consolidated financial statements included elsewhere in this annual report.

Comparison of 2019 to 2018

Our provision for credit losses decreased slightly from ₩674 billion in 2018 to ₩670 billion in 2019, primarily due to decreases in provisions for loan losses in respect of our corporate loans and, to a lesser extent, our credit card receivables. Such decreases resulted mainly from an improvement in the overall asset quality of our corporate loan portfolio and credit card receivables. Such decreases were offset in part by an increase in provision for loan losses in respect of our retail loans, which resulted primarily from a deterioration in the overall asset quality of our retail loan portfolio, as well as an increase in the volume of such loans.

Our write-offs increased 10.1% from ₩1,079 billion in 2018 to ₩1,188 billion in 2019, primarily due to increases in write-offs of retail loans and credit card receivables.

Our reversal of provision for payment guarantees and unused loan commitments decreased 90.9% from ₩11 billion in 2018 to ₩1 billion in 2019, due mainly to a change in provision for payment guarantees from a reversal of provision of ₩26 billion in 2018 to a provision of ₩2 billion in 2019.

Comparison of 2018 to 2017

Our provision for credit losses increased 23.0% from ₩548 billion in 2017 to ₩674 billion in 2018, primarily due to increases in provisions for loan losses in respect of our credit card receivables and, to a lesser extent, our retail loans. Such increases resulted mainly from an overall deterioration in the asset quality of our credit card receivables and retail loans, as well as increases in the outstanding volumes of such receivables and loans. Such increases were offset in part by a decrease in provision for loan losses in respect of our corporate loans, which resulted primarily from an improvement in the overall asset quality of our corporate loan portfolio.

Our write-offs decreased 5.1% from ₩1,137 billion in 2017 to ₩1,079 billion in 2018, primarily due to a decrease in write-offs of corporate loans.

Our reversal of provision for payment guarantees and unused loan commitments decreased 74.9% from ₩44 billion in 2017 to ₩11 billion in 2018, due mainly to a change in provision for unused loan commitments from a reversal of provision of ₩10 billion in 2017 to a provision of ₩15 billion in 2018.

Allowances for Loan Losses

We establish allowances for loan losses with respect to loans to absorb such losses. We assess individually significant loans on a case-by-case basis and other loans on a collective basis. For further information on allowances for loan losses, see “—Critical Accounting Policies—Impairment of Loans and Allowances for Loan Losses” and “Item 4.B. Business Overview—Assets and Liabilities—Loan Portfolio—Allocation and Analysis of Allowances for Loan Losses.”

Corporate Loans. The following table shows, for the periods indicated, certain information regarding our impaired corporate loans:

	As of December 31,		
	2017	2018	2019
Impaired corporate loans as a percentage of total corporate loans	1.1%	0.8%	0.5%
Allowances for loan losses for corporate loans as a percentage of total corporate loans	0.9	0.9	0.6
Allowances for loan losses for corporate loans as a percentage of impaired corporate loans	86.7	110.0	116.3
Net charge-offs of corporate loans as a percentage of total corporate loans	0.1	0.0	0.1

During 2019, both impaired corporate loans and allowances for loan losses for corporate loans, as a percentage of total corporate loans, decreased primarily due to a decrease in our impaired corporate loans, which mainly reflected our efforts to improve the asset quality of our corporate loan portfolio, as well as an increase in our total corporate loans. Such decrease in our impaired corporate loans outpaced a decrease in allowances for loan losses for corporate loans, which caused the level of allowances for loan losses for corporate loans as a percentage of impaired corporate loans to increase during 2019.

During 2018, impaired corporate loans as a percentage of total corporate loans decreased primarily due to a decrease in our impaired corporate loans, which mainly reflected our efforts to improve the asset quality of our corporate loan portfolio, as well as an increase in our total corporate loans. Allowances for loan losses for corporate loans as a percentage of total corporate loans remained constant, while allowances for loan losses for corporate loans as a percentage of impaired corporate loans increased during 2018, reflecting an increase in allowances for loan losses principally as a result of the application of the expected loss methodology in establishing such allowances under IFRS 9.

During 2017, both impaired corporate loans and allowances for loan losses for corporate loans, as a percentage of total corporate loans, decreased primarily due to a decrease in our impaired corporate loans, which mainly reflected our efforts to improve the asset quality of our corporate loan portfolio, as well as an increase in our total corporate loans. Such decrease in our impaired corporate loans outpaced a decrease in allowances for loan losses for corporate loans, which caused the level of allowances for loan losses for corporate loans as a percentage of impaired corporate loans to increase during 2017.

Retail Loans. The following table shows, for the periods indicated, certain information regarding our impaired retail loans:

	<u>As of December 31,</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
Impaired retail loans as a percentage of total retail loans	0.3%	0.3%	0.4%
Allowances for loan losses for retail loans as a percentage of total retail loans	0.3	0.4	0.4
Allowances for loan losses for retail loans as a percentage of impaired retail loans	86.6	119.9	117.8
Net charge-offs of retail loans as a percentage of total retail loans	0.1	0.2	0.2

During 2019, impaired retail loans as a percentage of total retail loans increased as the rate of increase in our impaired retail loans, which reflected a deterioration in the overall asset quality of our retail loan portfolio, outpaced the rate of increase in the amount of our total retail loans. Allowances for loan losses for retail loans as a percentage of total retail loans remained constant, while allowances for loan losses for retail loans as a percentage of impaired retail loans decreased during 2019, reflecting a rate of increase in impaired retail loans that outpaced the rate of increase in allowances for loan losses for retail loans.

During 2018, impaired retail loans as a percentage of total retail loans remained constant, as an increase in our impaired retail loans, which reflected a deterioration in the overall asset quality of our retail loan portfolio, was matched by an increase in the amount of our total retail loans. Allowances for loan losses for retail loans as a percentage of both total retail loans and impaired retail loans increased during 2018, as an increase in such allowances outpaced the increases in our total retail loans and our impaired retail loans, primarily due to the application of the expected loss methodology in establishing such allowances under IFRS 9.

During 2017, both impaired retail loans and allowances for loan losses for retail loans, as a percentage of total retail loans, decreased primarily due to a decrease in our impaired retail loans, which mainly reflected higher write-offs of such loans, as well as an increase in the amount of our total retail loans. Allowances for loan losses for retail loans as a percentage of impaired retail loans increased during 2017, as the decrease in our impaired retail loans outpaced a decrease in allowances for loan losses for retail loans.

Credit Card Balances. The following table shows, for the periods indicated, certain information regarding our impaired credit card balances:

	<u>As of December 31,</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
Impaired credit card balances as a percentage of total credit card balances	2.3%	2.4%	2.5%
Allowances for loan losses for credit card balances as a percentage of total credit card balances	3.0	4.1	4.0
Allowances for loan losses for credit card balances as a percentage of impaired credit card balances	128.6	169.5	155.9
Net charge-offs as a percentage of total credit card balances	1.8	1.9	2.0

During 2019, impaired credit card balances as a percentage of total credit card balances increased as the rate of increase in our impaired credit card balances outpaced the rate of increase in the amount of our total credit

card balances. Allowances for loan losses for credit card balances as a percentage of both total credit card balances and impaired credit card balances decreased during 2019, primarily as a result of an improvement in the asset quality of our existing impaired credit card balances.

During 2018, impaired credit card balances as a percentage of total credit card balances increased as the rate of increase in our impaired credit card balances outpaced the rate of increase in the amount of our total credit card balances. Allowances for loan losses for credit card balances as a percentage of both total credit card balances and impaired credit card balances increased in 2018, primarily as a result of a deterioration in the asset quality of our credit card balances, including existing impaired credit card balances. Such increases also reflected the application of the expected loss methodology in establishing allowances for loan losses under IFRS 9.

During 2017, impaired credit card balances as a percentage of total credit card balances increased as the rate of increase in our impaired credit card balances outpaced the rate of increase in the amount of our total credit card balances. Allowances for loan losses for credit card balances as a percentage of both total credit card balances and impaired credit card balances decreased during 2017, primarily as a result of an improvement in the asset quality of our credit card balances that were neither past due nor impaired.

Net Fee and Commission Income

The following table shows, for the periods indicated, the components of our net fee and commission income:

	<u>Year Ended December 31,</u>			<u>Percentage Change</u>	
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2018/2017</u>	<u>2019/2018</u>
	(in billions of Won)			(%)	
Fee and commission income	₩ 3,988	₩ 3,718	₩ 3,879	(6.8)%	4.3%
Fee and commission expense	(1,938)	(1,474)	(1,524)	(23.9)	3.4
Net fee and commission income	<u>₩ 2,050</u>	<u>₩ 2,243</u>	<u>₩ 2,355</u>	9.4	5.0

Comparison of 2019 to 2018

Our net fee and commission income increased 5.0% from ₩2,243 billion in 2018 to ₩2,355 billion in 2019, primarily due to a 4.3% increase in fee and commission income from ₩3,718 billion in 2018 to ₩3,879 billion in 2019, which was offset in part by a 3.4% increase in fee and commission expense from ₩1,474 billion in 2018 to ₩1,524 billion in 2019.

The 4.3% increase in fee and commission income was primarily due to a 73.3% increase in lease fees received from ₩247 billion in 2018 to ₩428 billion in 2019. The increase in lease fees received mainly reflected an increase in automobile rental fees received by KB Capital. Such increase in lease fees received was partially offset by a 13.9% decrease in commissions received on securities business from ₩518 billion in 2018 to ₩446 billion in 2019, principally as a result of a decrease in the volume of commission-generating securities instruments sold by KB Securities.

The 3.4% increase in fee and commission expense was principally attributable to a 15.2% increase in outsourcing related fees paid from ₩165 billion in 2018 to ₩190 billion in 2019. The increase in outsourcing related fees paid mainly reflected consulting and other miscellaneous fees paid by Kookmin Bank and KB Capital. Such increase in outsourcing related fees paid was partially offset by a 1.8% decrease in credit and debit card related fees and commissions paid from ₩908 billion in 2018 to ₩892 billion in 2019, principally as a result of a decrease in fees paid to value-added network providers, reflecting the decreased use of debit cards.

Comparison of 2018 to 2017

Our net fee and commission income increased 9.4% from ₩2,050 billion in 2017 to ₩2,243 billion in 2018, primarily due to a 23.9% decrease in fee and commission expense from ₩1,938 billion in 2017 to

₩1,474 billion in 2018, which outpaced a 6.8% decrease in fee and commission income from ₩3,988 billion in 2017 to ₩3,718 billion in 2018.

The 23.9% decrease in fee and commission expense was principally attributable to a 38.7% decrease in credit and debit card related fees and commissions paid from ₩1,482 billion in 2017 to ₩908 billion in 2018. The decrease in credit and debit card related fees and commissions paid mainly reflected the impact of our adoption of IFRS 15 in 2018, pursuant to which expenses related to fixed benefits provided to cardholders are deducted from both expenses and revenue as they are considered as consideration provided to customers. See Notes 2.1 and 28 of the notes to our consolidated financial statements included elsewhere in this annual report.

The 6.8% decrease in fee and commission income was primarily due to a 26.4% decrease in credit and debit card related fees and commissions received from ₩1,848 billion in 2017 to ₩1,361 billion in 2018. The decrease in credit and debit card related fees and commissions received mainly reflected the impact of our adoption of IFRS 15, as discussed above. Such decrease in credit and debit card related fees and commissions received was partially offset by a 71.5% increase in lease fees received from ₩144 billion in 2017 to ₩247 billion in 2018, principally as a result of an increase in automobile rental and lease fees received by KB Capital.

For further information regarding our net fee and commission income, see Note 28 of the notes to our consolidated financial statements included elsewhere in this annual report.

Net Insurance Income

The following table shows, for the periods indicated, the components of our net insurance income:

	Year Ended December 31,			Percentage Change	
	2017	2018	2019	2018/2017	2019/2018
	(in billions of Won)			(%)	
Insurance income	₩ 8,971	₩ 11,975	₩ 12,317	33.5%	2.9%
Insurance expense	(8,377)	(11,485)	(12,018)	37.1	4.6
Net insurance income	₩ 594	₩ 490	₩ 300	(17.5)	(38.8)

Comparison of 2019 to 2018

Our net insurance income decreased 38.8% from ₩490 billion in 2018 to ₩300 billion in 2019, primarily due to a 4.6% increase in insurance expense from ₩11,485 billion in 2018 to ₩12,018 billion in 2019, which outpaced a 2.9% increase in insurance income from ₩11,975 billion in 2018 to ₩12,317 billion in 2019.

The increase in insurance expense was principally attributable to a 14.3% increase in insurance claims paid from ₩4,416 billion in 2018 to ₩5,047 billion in 2019, primarily due to an increase in the number of life insurance products sold by KB Life Insurance, as well as an increase in payments on surrenders and withdrawals made by KB Life Insurance. Such increase in insurance claims paid was offset in part by a 49.3% decrease in separate account expenses from ₩276 billion in 2018 to ₩140 billion in 2019, mainly due to decreases in separate account management fees and other expenses on products that provide fixed-level benefits paid by KB Life Insurance.

The increase in insurance income was mainly due to a 4.1% increase in premium income from ₩10,730 billion in 2018 to ₩11,173 billion in 2019, principally as a result of an increase in the number of life insurance products sold by KB Life Insurance in 2019. Such increase in premium income was partially offset by a decrease in separate account income from ₩361 billion in 2018 to ₩216 billion in 2019, primarily due to decreases in interest income, investment income and other income on retirement pension products that provide fixed-level benefits received by KB Life Insurance.

Comparison of 2018 to 2017

Our net insurance income decreased 17.5% from ₩594 billion in 2017 to ₩490 billion in 2018, primarily due to a 37.1% increase in insurance expense from ₩8,377 billion in 2017 to ₩11,485 billion in 2018, which outpaced a 33.5% increase in insurance income from ₩8,971 billion in 2017 to ₩11,975 billion in 2018.

The increase in insurance expense was principally attributable to increases in insurance claims paid and refunds of surrender value of our insurance policies. Insurance claims paid increased 49.9% from ₩2,945 billion in 2017 to ₩4,416 billion in 2018, and refunds of surrender value of our insurance policies increased 30.2% from ₩2,194 billion in 2017 to ₩2,856 billion in 2018, primarily due to the full-year effect of the addition of such claims paid and refunds of KB Insurance commencing in May 2017 to our insurance expense.

The increase in insurance income was mainly due to an increase in premium income. Premium income increased 30.3% from ₩8,235 billion in 2017 to ₩10,730 billion in 2018, principally as a result of the full-year effect of the addition of the premium income of KB Insurance commencing in May 2017 to our insurance income.

Net Gain on Financial Assets and Liabilities at Fair Value through Profit or Loss

The following table shows, for the periods indicated, the components of our net gain on financial assets and liabilities at fair value through profit or loss:

	Year Ended December 31,			Percentage Change	
	2017	2018	2019	2018/2017	2019/2018
	(in billions of Won)			(%)	
Net gain on financial assets at fair value through profit or loss	₩ —	₩ 790	₩ 974	N/A ⁽¹⁾	23.3%
Net gain on financial assets held-for-trading	67	—	—	N/A ⁽¹⁾	N/A ⁽¹⁾
Net gain (loss) on derivatives held-for-trading	906	(283)	1,116	N/M ⁽²⁾	N/M ⁽²⁾
Net loss on financial liabilities at fair value through profit or loss	—	(62)	(48)	N/A ⁽¹⁾	(22.6)
Net loss on financial liabilities held-for-trading	(29)	—	—	N/A ⁽¹⁾	N/A ⁽¹⁾
Net loss on financial instruments designated at fair value through profit or loss (IFRS 9)	—	(93)	(1,398)	N/A ⁽¹⁾	N/M ⁽²⁾
Net loss on financial instruments designated at fair value through profit or loss (IAS 39)	(741)	—	—	N/A ⁽¹⁾	N/A ⁽¹⁾
Net gain on financial assets and liabilities at fair value through profit or loss	<u>₩ 203</u>	<u>₩ 352</u>	<u>₩ 644</u>	73.4%	83.0

⁽¹⁾ “N/A” means not applicable.

⁽²⁾ “N/M” means not meaningful.

Comparison of 2019 to 2018

Our net gain on financial assets and liabilities at fair value through profit or loss increased 83.0% from ₩352 billion in 2018 to ₩644 billion in 2019. Such increase was attributable to a change in net gain (loss) on derivatives held-for-trading from a net loss to a net gain and an increase in net gain on financial assets at fair value through profit or loss, the effects of which were partially offset by a more than fourteen-fold increase in net loss on financial instruments designated at fair value through profit or loss.

- Our net gain (loss) on derivatives held-for-trading changed from a net loss of ₩283 billion in 2018 to a net gain of ₩1,116 billion in 2019, mainly as a result of a change in net gain (loss) on stock or stock index derivatives held-for-trading from a net loss of ₩243 billion in 2018 to a net gain of ₩1,027 billion in 2019.

- Our net gain on financial assets at fair value through profit or loss increased 23.3% from ₩790 billion in 2018 to ₩974 billion in 2019, principally due to a 23.9% increase in net gain on debt securities held for trading from ₩695 billion in 2018 to ₩861 billion in 2019.
- Our net loss on financial instruments designated at fair value through profit or loss increased more than fourteen-fold from ₩93 billion in 2018 to ₩1,398 billion in 2019, mainly as a result of a 156.8% increase in net loss on financial liabilities designated at fair value through profit or loss from ₩761 billion in 2018 to ₩1,954 billion in 2019.

Comparison of 2018 to 2017

Our net gain on financial assets and liabilities at fair value through profit or loss increased 73.4% from ₩203 billion in 2017 to ₩352 billion in 2018. Such increase was attributable to an increase in net gain on financial assets at fair value through profit or loss in 2018, compared to net gain on financial assets held-for-trading in 2017, as well as a decrease in net loss on financial instruments designated at fair value through profit or loss under IFRS 9 in 2018, compared to net loss on financial instruments designated at fair value through profit or loss under IAS 39 in 2017, the effects of which were partially offset by a change in net gain (loss) on derivatives held-for-trading from a net gain in 2017 to a net loss in 2018.

- Financial assets at fair value through profit or loss under IFRS 9 include all financial assets that were classified as financial assets held-for-trading under IAS 39 in 2017, as well as certain other financial assets that were classified as available-for-sale financial assets, cash and due from financial institutions, loans and held-to-maturity financial assets under IAS 39 in 2017. See “—Overview—Changes in Accounting Standards—Adoption of IFRS 9.” Our net gain on financial assets at fair value through profit or loss increased significantly to ₩790 billion in 2018, compared to net gain on financial assets held-for-trading of ₩67 billion in 2017, mainly due to a change in net gain (loss) on debt securities from a net loss of ₩125 billion in 2017 to a net gain of ₩695 billion in 2018, which was partially offset by a 50.5% decrease in net gain on equity securities from ₩192 billion in 2017 to ₩95 billion in 2018.
- Our net loss on financial instruments designated at fair value through profit or loss under IFRS 9 decreased 87.9% to ₩93 billion in 2018, compared to net loss on financial instruments designated at fair value through profit or loss under IAS 39 of ₩741 billion in 2017, principally as a result of an 88.3% decrease in net loss on financial liabilities designated at fair value through profit or loss from ₩792 billion in 2017 to ₩93 billion in 2018.
- Our net gain (loss) on derivatives held-for-trading changed from a net gain of ₩906 billion in 2017 to a net loss of ₩283 billion in 2018, primarily due to a change in net gain (loss) on stock or stock index derivatives held-for-trading from a net gain of ₩649 billion in 2017 to a net loss of ₩243 billion in 2018, which was enhanced by a change in net gain (loss) on interest rate derivatives held-for-trading from a net gain of ₩127 billion in 2017 to a net loss of ₩281 billion in 2018.

For further information regarding our net gain on financial assets and liabilities at fair value through profit or loss, see Note 29 of the notes to our consolidated financial statements included elsewhere in this annual report.

General and Administrative Expenses

The following table shows, for the periods indicated, the components of our general and administrative expenses:

	Year Ended December 31,			Percentage Change	
	2017	2018	2019	2018/2017	2019/2018
	(in billions of Won)			(%)	
Employee compensation and benefits	₩3,769	₩3,874	₩3,955	2.8%	2.1%
Depreciation and amortization	370	409	784	10.5	91.7
Other general and administrative expenses	1,490	1,635	1,531	9.7	(6.4)
General and administrative expenses	<u>₩5,629</u>	<u>₩5,919</u>	<u>₩6,271</u>	5.2	5.9

Comparison of 2019 to 2018

Our general and administrative expenses increased 5.9% from ₩5,919 billion in 2018 to ₩6,271 billion in 2019, primarily as a result of a 91.7% increase in depreciation and amortization expenses from ₩409 billion in 2018 to ₩784 billion in 2019, which was offset in part by a 6.4% decrease in other general and administrative expenses from ₩1,635 billion in 2018 to ₩1,531 billion in 2019.

The increase in depreciation and amortization expenses was attributable mainly to an increase in depreciation and amortization expenses related to our right-of-use assets pursuant to our adoption of IFRS 16. For additional information regarding IFRS 16 and the impact of its application to our consolidated financial statements, see Notes 2.1 and 44 of the notes to our consolidated financial statements.

The decrease in other general and administrative expenses was attributable mainly to a 69.5% decrease in rental expenses from ₩361 billion in 2018 to ₩110 billion in 2019, which was primarily due to our adoption of IFRS 16, as discussed above.

Comparison of 2018 to 2017

Our general and administrative expenses increased 5.2% from ₩5,629 billion in 2017 to ₩5,919 billion in 2018, primarily as a result of a 9.7% increase in other general and administrative expenses from ₩1,490 billion in 2017 to ₩1,635 billion in 2018, as well as a 2.8% increase in employee compensation and benefits from ₩3,769 billion in 2017 to ₩3,874 billion in 2018.

The increase in other general and administrative expenses was attributable mainly to a 12.5% increase in rental expenses from ₩321 billion in 2017 to ₩361 billion in 2018, and a 17.3% increase in service fees from ₩179 billion in 2017 to ₩210 billion in 2018, which were primarily due to an increase in such expense and fees of KB Securities, as well as the full-year effect of the addition of such expense and fees of KB Insurance commencing in May 2017 to our other general and administrative expenses.

The increase in employee compensation and benefits was attributable mainly to a 50.3% increase in termination benefits from ₩161 billion in 2017 to ₩242 billion in 2018, mainly due to an increase in the number of employees participating in the voluntary early retirement program implemented by Kookmin Bank. Such increase was offset in part by an 84.9% decrease in share-based payments from ₩73 billion in 2017 to ₩11 billion in 2018, which resulted mainly from a decrease in stock grants provided to employees of Kookmin Bank.

Net Other Operating Expenses

The following table shows, for the periods indicated, the components of our net other operating expenses:

	Year Ended December 31,			Percentage Change	
	2017	2018	2019	2018/2017	2019/2018
	(in billions of Won)			(%)	
Other operating income	₩ 3,237	₩ 2,127	₩ 2,864	(34.3)%	34.6%
Other operating expenses	(4,139)	(3,257)	(3,927)	(21.3)	20.6
Net other operating expenses	₩ (902)	₩(1,130)	₩(1,063)	25.3	(5.9)

Comparison of 2019 to 2018

Our net other operating expenses decreased 5.9% from ₩1,130 billion in 2018 to ₩1,063 billion in 2019 as a 34.6% increase in other operating income from ₩2,127 billion in 2018 to ₩2,864 billion in 2019 outpaced a 20.6% increase in other operating expenses from ₩3,257 billion in 2018 to ₩3,927 billion in 2019.

Other operating income includes principally gain on foreign exchange transactions, gain on sale of financial assets at fair value through other comprehensive income and other income. The 34.6% increase in other operating income was primarily attributable to a 36.5% increase in gain on foreign exchange transactions from ₩1,600 billion in 2018 to ₩2,184 billion in 2019. The increase in gain on foreign exchange transactions, which was mainly the result of increased exchange rate volatility, was partially offset by an increase in loss on foreign exchange transactions, which is recorded as part of other operating expenses. On a net basis, our net gain on foreign exchange transactions increased 256.7% from ₩60 billion in 2018 to ₩214 billion in 2019.

Other operating expenses include principally loss on foreign exchange transactions, loss on sale of loans at amortized cost, loss on sale of financial instruments measured at fair value through other comprehensive income and other expenses. The 20.6% increase in other operating expense was mainly the result of a 27.9% increase in loss on foreign exchange transactions from ₩1,540 billion in 2018 to ₩1,970 billion in 2019. The increase in loss on foreign exchange transactions, which was primarily due to an increase in the volume of our foreign currency transactions, was more than offset by an increase in gain on foreign exchange transactions, which is recorded as part of other operating income as discussed above.

Comparison of 2018 to 2017

Our net other operating expenses increased 25.3% from ₩902 billion in 2017 to ₩1,130 billion in 2018 as a 34.3% decrease in other operating income from ₩3,237 billion in 2017 to ₩2,127 billion in 2018 outpaced a 21.3% decrease in other operating expenses from ₩4,139 billion in 2017 to ₩3,257 billion in 2018.

Other operating income includes principally gain on foreign exchange transactions, gain on sale of financial assets at fair value through other comprehensive income and other income. The 34.3% decrease in other operating income was primarily attributable to a 36.5% decrease in gain on foreign exchange transactions from ₩2,520 billion in 2017 to ₩1,600 billion in 2018. The decrease in gain on foreign exchange transactions, which was mainly the result of lower exchange rate volatility, was more than offset by a decrease in loss on foreign exchange transactions, which is recorded as part of other operating expenses. On a net basis, our net gain on foreign exchange transactions increased 27.7% from ₩47 billion in 2017 to ₩60 billion in 2018.

Other operating expenses include principally loss on foreign exchange transactions, impairment on financial assets at fair value through other comprehensive income, loss on sale of financial assets at fair value through other comprehensive income and other expenses. The 21.3% decrease in other operating expense was mainly the result of a 37.7% decrease in loss on foreign exchange transactions from ₩2,473 billion in 2017 to ₩1,540 billion in 2018. The decrease in loss on foreign exchange transactions, which was primarily due to lower exchange rate volatility, was partially offset by a decrease in gain on foreign exchange transactions, which is recorded as part of other operating income as discussed above.

For further information regarding our net other operating expenses, see Note 30 of the notes to our consolidated financial statements included elsewhere in this annual report.

Net Non-operating Profit

The following table shows, for the periods indicated, the components of our net non-operating profit:

	Year Ended December 31,			Percentage Change	
	2017	2018	2019	2018/2017	2019/2018
	(in billions of Won)			(%)	
Share of profit of associates	₩ 84	₩24	₩16	(71.4)%	(33.3)%
Net other non-operating income	39	10	27	(74.4)	170.0
Net non-operating profit	<u>₩123</u>	<u>₩34</u>	<u>₩43</u>	(72.4)	26.5

Comparison of 2019 to 2018

Our net non-operating profit increased 26.5% from ₩34 billion in 2018 to ₩43 billion in 2019, primarily as a result of a 170.0% increase in net other non-operating income from ₩10 billion in 2018 to ₩27 billion in 2019, which was partially offset by a 33.3% decrease in share of profit of associates from ₩24 billion in 2018 to ₩16 billion in 2019.

The 170.0% increase in net other non-operating income was attributable mainly to a 22.9% decrease in other non-operating expenses from ₩236 billion in 2018 to ₩182 billion in 2019, which was partially offset by a 14.7% decrease in other non-operating income from ₩245 billion in 2018 to ₩209 billion in 2019. The decrease in other non-operating expenses primarily reflected a 20.8% decrease in donations from ₩130 billion in 2018 to ₩103 billion in 2019. The decrease in other non-operating income primarily reflected a 97.5% decrease in profit on disposal of non-current assets held for sale, which was mainly attributable to the recognition of a gain on disposal of Kookmin Bank’s former headquarters building in Seoul in 2018, which was not repeated in 2019.

The 33.3% decrease in share of profit of associates was primarily due to a decrease in profits of equity-method investees of Kookmin Bank.

Comparison of 2018 to 2017

Our net non-operating profit decreased 72.4% from ₩123 billion in 2017 to ₩34 billion in 2018, primarily as a result of a 71.4% decrease in share of profit of associates from ₩84 billion in 2017 to ₩24 billion in 2018 and, to a lesser extent, a 74.4% decrease in net other non-operating income from ₩39 billion in 2017 to ₩10 billion in 2018.

The 71.4% decrease in share of profit of associates was primarily due to the conversion of KB Insurance from an associate accounted for under the equity method to a consolidated subsidiary in May 2017, as well as a decrease in gains on disposal of investments in associates and joint ventures from 2017 to 2018.

The 74.4% decrease in net other non-operating income was attributable mainly to a 6.1% decrease in other non-operating income from ₩261 billion in 2017 to ₩245 billion in 2018, which was enhanced by a 6.3% increase in other non-operating expenses from ₩222 billion in 2017 to ₩236 billion in 2018. The decrease in other non-operating income was principally due to gains on bargain purchase of ₩123 billion recognized in connection with a tender offer we conducted in May 2017 to increase our shareholding in KB Insurance, compared to no such gains in 2018. See “—Overview—Acquisitions.” The increase in other non-operating expenses primarily reflected a 140.7% increase in donations from ₩54 billion in 2017 to ₩130 billion in 2018.

Income Tax Expense (Benefit)

Our income tax expense is calculated by adding or subtracting changes in deferred income tax liabilities and assets to income tax amounts payable for the period. Deferred income tax assets are recognized for deductible temporary differences, unused tax losses and unused tax credits, while deferred income tax liabilities are recognized for taxable temporary differences. Temporary differences are those between the carrying values of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred income tax assets, including unused tax losses and credits, are recognized only to the extent it is probable that sufficient taxable profit will be available against which such deferred income tax assets can be utilized. See “—Critical Accounting Policies—Deferred Income Tax Assets.”

Comparison of 2019 to 2018

Income tax expense decreased 1.5% from ₩1,240 billion in 2018 to ₩1,221 billion in 2019, primarily due to the effect of a change in adjustments recognized in 2019 for current tax of prior years from an expense of ₩23 billion in 2018 to a benefit of ₩51 billion in 2019 and an increase in income tax expense recognized directly in equity relating to net overlay adjustments from ₩1 billion in 2018 to ₩73 billion in 2019, which were partially offset by a 5.4% increase in our profit before income tax from 2018 to 2019 and a 150.9% increase in expenses relating to the effect of changes in deferred income tax assets and liabilities from ₩114 billion in 2018 to ₩286 billion in 2019. Our effective tax rate was 26.9% in 2019 compared to 28.8% in 2018.

Comparison of 2018 to 2017

Income tax expense increased 56.0% from ₩795 billion in 2017 to ₩1,240 billion in 2018, primarily due to a significant decrease in tax benefits from non-taxable income from ₩208 billion in 2017 to ₩12 billion in 2018 and a 4.0% increase in our profit before income tax from 2017 to 2018. The effect of such changes was enhanced by an increase in the statutory tax rate applicable to us from 24.2% in 2017 to 27.5% in 2018 as a result of changes in Korean corporate income tax laws that became effective in January 2018. The effect of such changes was partially offset by a 46.2% decrease in expenses relating to the effect of changes in deferred income tax assets and liabilities from ₩212 billion in 2017 to ₩114 billion in 2018. Our effective tax rate was 28.8% in 2018 compared to 19.2% in 2017.

See Note 33 of the notes to our consolidated financial statements included elsewhere in this annual report.

Profit for the Year

As a result of the factors described above, our profit for the year was ₩3,313 billion in 2019, compared to ₩3,062 billion in 2018 and ₩3,343 billion in 2017.

Results by Principal Business Segment

We compile and analyze financial information for our business segments based upon segment information used by our management for the purposes of resource allocation and performance evaluation. We are organized into seven major business segments: retail banking operations, corporate banking operations, other banking operations, credit card operations, investment and securities operations, life insurance operations and non-life insurance operations.

The following table shows, for the periods indicated, our results of operations by segment:

	Profit ⁽¹⁾ for the Year Ended December 31,			Total Operating Revenue ⁽²⁾ for the Year Ended December 31,		
	2017	2018	2019	2017	2018	2019
	(in billions of Won)					
Retail banking operations	₩ 540	₩ 609	₩ 552	₩ 2,711	₩ 2,989	₩ 2,980
Corporate banking operations	964	1,012	1,060	2,129	2,319	2,376
Other banking operations	671	638	827	1,405	1,271	1,591
Credit card operations	297	287	317	1,277	1,525	1,471
Investment and securities operations	272	179	258	1,074	998	1,113
Life insurance operations	21	15	16	130	113	107
Non-life insurance operations	330	262	235	1,121	1,183	1,186
Other	113	128	182	345	461	608
Total ⁽³⁾	<u>₩3,208</u>	<u>₩3,130</u>	<u>₩3,447</u>	<u>₩10,192</u>	<u>₩10,859</u>	<u>₩11,432</u>

⁽¹⁾ After deduction of income tax allocated to each segment. See Note 5 of the notes to our consolidated financial statements.

⁽²⁾ Represents operating revenue from external customers. See Note 5 of the notes to our consolidated financial statements.

⁽³⁾ Prior to adjustments for consolidation, inter-segment transactions and certain differences in classification under our management reporting system.

Our other banking operations, which include treasury activities, provide funding to our retail banking operations and corporate banking operations and receive funds procured through the financing activities of such segments, such as deposit-taking activities. When our retail banking operations or corporate banking operations engage in an investing activity, such as lending, the relevant amount is recognized as an inter-segment borrowing from the other banking operations. When our retail banking operations or corporate banking operations engage in a financing activity, such as deposit-taking, the relevant amount is recognized as an inter-segment lending to the other banking operations (or as a reduction in inter-segment borrowings from the other banking operations). Generally, for our retail banking operations, the amounts procured from financing activities are greater than the amounts used in investing activities, whereas for our corporate banking operations, the amounts used in investing activities are greater than the amounts procured from financing activities. The cost of borrowing from the other banking operations is calculated by multiplying the average balance of the amounts used in investing activities by the applicable internal funding rate on such inter-segment borrowings, whereas the income from lending to the other banking operations is calculated by multiplying the average balance of the amounts procured from financing activities by the applicable internal funding rate on such inter-segment lendings. The applicable internal funding rates on inter-segment borrowings tend to be generally higher than the applicable internal funding rates on inter-segment lendings, primarily due to the difference in the maturity structure of interest rates on the amounts used in investing activities and the amounts procured from financing activities. The cost of borrowing from the other banking operations is offset by the income from lending to the other banking operations, and the difference is recorded as expenses related to inter-segment borrowings, within net other operating expenses, for our retail banking operations and corporate banking operations, while a corresponding amount is recorded as income from inter-segment lending, within net other operating income, for our other banking operations.

Retail Banking Operations

This segment consists of retail banking services provided by Kookmin Bank. The following table shows, for the periods indicated, our income statement data for this segment:

	Year Ended December 31,			Percentage Change	
	2017	2018	2019	2018/2017	2019/2018
	(in billions of Won)			(%)	
Income statement data					
Interest income	₩ 3,936	₩ 4,548	₩ 4,873	15.5%	7.1%
Interest expense	(1,288)	(1,587)	(1,725)	23.2	8.7
Net fee and commission income	595	490	472	(17.6)	(3.7)
Net other operating expense	(532)	(462)	(640)	(13.2)	38.5
General and administrative expenses	(1,947)	(1,970)	(1,982)	1.2	0.6
Provision for credit losses	(122)	(179)	(236)	46.7	31.8
Profit before income tax	642	840	761	30.8	(9.4)
Tax expense	(102)	(231)	(209)	126.5	(9.5)
Profit for the year	₩ 540	₩ 609	₩ 552	12.8	(9.4)

Comparison of 2019 to 2018

Our profit before income tax for this segment decreased 9.4% from ₩840 billion in 2018 to ₩761 billion in 2019.

Interest income from our retail banking operations increased 7.1% from ₩4,548 billion in 2018 to ₩4,873 billion in 2019. This increase was principally due to increases in the average volume of mortgage loans and other consumer loans, mainly reflecting higher demand for such loans, the effect of which was enhanced by an increase in the average yields on mortgage loans and partially offset by a decrease in the average yields on other consumer loans from 2018 to 2019.

Our largest and most important funding source is deposits from retail customers, which represent more than half of our total deposits. Interest expense for this segment increased 8.7% from ₩1,587 billion in 2018 to ₩1,725 billion in 2019. This increase was mainly due to an increase in the average volume of time deposits held by retail customers, mainly reflecting higher demands for such deposits, which was enhanced by an increase in the average cost of such deposits.

Net fee and commission income attributable to this segment decreased 3.7% from ₩490 billion in 2018 to ₩472 billion in 2019, mainly due to a decrease in beneficiary certificate sales commission fees received and an increase in ATM-related fees paid.

Net other operating expense attributable to this segment increased 38.5% from ₩462 billion in 2018 to ₩640 billion in 2019, mainly as a result of an increase in expenses related to inter-segment borrowings. While the higher interest rate environment in Korea in 2019 led to increases in the internal funding rates applicable to both inter-segment borrowings and lendings from 2018 to 2019, the increase in the cost of inter-segment borrowings was higher than the increase in the yield of inter-segment lendings, leading to an increase in expenses related to inter-segment borrowings.

General and administrative expenses attributable to this segment increased 0.6% from ₩1,970 billion in 2018 to ₩1,982 billion in 2019, primarily due to increases in expenses related to right-of-use assets pursuant to our adoption of IFRS 16 and common administrative expenses shared among the banking-related segments, the effects of which were offset in part by a decrease in rental expenses pursuant to our adoption of IFRS 16.

Provision for credit losses increased 31.8% from ₩179 billion in 2018 to ₩236 billion in 2019, mainly due to an increase in the outstanding volume of our retail loans, as well as an overall deterioration in the asset quality of such loans.

Comparison of 2018 to 2017

Our profit before income tax for this segment increased 30.8% from ₩642 billion in 2017 to ₩840 billion in 2018.

Interest income from our retail banking operations increased 15.5% from ₩3,936 billion in 2017 to ₩4,548 billion in 2018. This increase was principally due to increases in the average volume of other consumer and mortgage loans, mainly reflecting higher demand for such loans, the effect of which was enhanced by increases in the average yields on other consumer loans and mortgage loans from 2017 to 2018.

Interest expense for this segment increased 23.2% from ₩1,288 billion in 2017 to ₩1,587 billion in 2018. This increase was mainly due to an increase in the average cost of time deposits held by retail customers, primarily reflecting an increase in the general level of interest rates in Korea in 2018 compared to 2017, which was enhanced by an increase in the average volume of such deposits.

Net fee and commission income attributable to this segment decreased 17.6% from ₩595 billion in 2017 to ₩490 billion in 2018, mainly due to decreases in beneficiary certificate sales commission fees and trust fees received.

Net other operating expense attributable to this segment decreased 13.2% from ₩532 billion in 2017 to ₩462 billion in 2018, mainly as a result of a decrease in expenses related to inter-segment borrowings. While the higher interest rate environment in Korea in 2018 compared to 2017 led to increases in the internal funding rates applicable to both inter-segment borrowings and lendings from 2017 to 2018, the increase in the yield on inter-segment lendings was higher compared to the increase in the cost of inter-segment borrowings, leading to a decrease in expenses related to inter-segment borrowings.

General and administrative expenses attributable to this segment increased 1.2% from ₩1,947 billion in 2017 to ₩1,970 billion in 2018, primarily due to an increase in compensation and other common administrative expenses shared among the banking-related segments.

Provision for credit losses increased 46.7% from ₩122 billion in 2017 to ₩179 billion in 2018, mainly due to an overall deterioration in the asset quality of our retail loans, as well as an increase in the outstanding volume of such loans.

Corporate Banking Operations

This segment consists of corporate banking services provided by Kookmin Bank. The following table shows, for the periods indicated, our income statement data for this segment:

	Year Ended December 31,			Percentage Change	
	2017	2018	2019	2018/2017	2019/2018
	(in billions of Won)			(%)	
Income statement data					
Interest income	₩ 3,584	₩ 4,268	₩ 4,643	19.1%	8.8%
Interest expense	(1,028)	(1,514)	(1,798)	47.3	18.8
Net fee and commission income	236	288	349	22.0	21.2
Net gain (loss) from financial assets and liabilities at fair value through profit or loss	—	14	(3)	N/A ⁽¹⁾	N/M ⁽²⁾
Net loss from financial assets and liabilities at fair value through profit or loss (under IAS 39)	(2)	—	—	N/A ⁽¹⁾	N/A ⁽¹⁾
Net other operating expense	(679)	(642)	(611)	(5.4)	(4.8)
General and administrative expenses	(974)	(1,092)	(1,242)	12.1	13.7
Reversal of provision for credit losses	7	77	126	N/M ⁽²⁾	63.6
Net other non-operating revenue	2	—	—	N/A ⁽¹⁾	N/A ⁽¹⁾
Profit before income tax	1,146	1,399	1,464	22.1	4.6
Tax expense	(182)	(387)	(404)	112.6	4.4
Profit for the year	₩ 964	₩ 1,012	₩ 1,060	5.0	4.7

⁽¹⁾ “N/A” means not applicable.

⁽²⁾ “N/M” means not meaningful.

Comparison of 2019 to 2018

Our profit before income tax for this segment increased 4.6% from ₩1,399 billion in 2018 to ₩1,464 billion in 2019.

Interest income from our corporate banking operations increased 8.8% from ₩4,268 billion in 2018 to ₩4,643 billion in 2019. This increase was principally due to an increase in the average volume of corporate loans, mainly reflecting increased demand for such loans, which was enhanced by an increase in the average yields on such loans.

Interest expense for this segment increased 18.8% from ₩1,514 billion in 2018 to ₩1,798 billion in 2019. This increase was principally due to an increase in the average volume of time deposits held by corporate customers, primarily reflecting higher demand for such deposits, which was enhanced by an increase in the average cost of such deposits.

Net fee and commission income attributable to this segment increased 21.2% from ₩288 billion in 2018 to ₩349 billion in 2019, primarily due to an increase in fund transfer fees.

Net gain (loss) from financial assets and liabilities at fair value through profit or loss attributable to this segment changed from a net gain of ₩14 billion in 2018 to a net loss of ₩3 billion in 2019, principally as a result of a change in net gain (loss) on derivatives held-for-trading from a net gain in 2018 to a net loss in 2019.

Net other operating expense attributable to this segment decreased 4.8% from ₩642 billion in 2018 to ₩611 billion in 2019, mainly as a result of a decrease in expenses related to inter-segment borrowings. While the average volumes increased for both inter-segment borrowings and lendings from 2018 to 2019, which was further enhanced by increases in the internal funding rates applicable to both inter-segment borrowings and

lendings from 2018 to 2019, the increase in the average volume of inter-segment lendings was higher than the increase in the average volume of inter-segment borrowings, leading to a decrease in expenses related to inter-segment borrowings.

General and administrative expenses attributable to this segment increased 13.7% from ₩1,092 billion in 2018 to ₩1,242 billion in 2019, principally due to increases in common administrative expenses shared among the banking-related segments, depreciation and amortization expenses and salary expenses.

Reversal of provision for credit losses increased 63.6% from ₩77 billion in 2018 to ₩126 billion in 2019, due mainly to an improvement in the asset quality of corporate loans, reflecting a decrease in impaired corporate loans, as well as lower net write-offs of such loans.

Net other non-operating revenue attributable to this segment remained constant at less than ₩1 billion in 2018 and 2019.

Comparison of 2018 to 2017

Our profit before income tax for this segment increased 22.1% from ₩1,146 billion in 2017 to ₩1,399 billion in 2018.

Interest income from our corporate banking operations increased 19.1% from ₩3,584 billion in 2017 to ₩4,268 billion in 2018. This increase was principally due to an increase in the average volume of corporate loans, mainly reflecting increased demand for such loans, which was enhanced by an increase in the average yields on such loans.

Interest expense for this segment increased 47.3% from ₩1,028 billion in 2017 to ₩1,514 billion in 2018. This increase was principally due to an increase in the average cost of time deposits held by corporate customers, primarily reflecting an increase in the general level of interest rates in Korea in 2018 compared to 2017, which was enhanced by an increase in the average volume of such deposits.

Net fee and commission income attributable to this segment increased 22.0% from ₩236 billion in 2017 to ₩288 billion in 2018, primarily due to increases in fund transfer fees, agent activity fees and trust fees received.

Net gain (loss) from financial assets and liabilities at fair value through profit or loss attributable to this segment changed from a net loss under IAS 39 of ₩2 billion in 2017 to a net gain of ₩14 billion in 2018, principally as a result of an increase in net gain on derivatives held-for-trading.

Net other operating expense attributable to this segment decreased 5.4% from ₩679 billion in 2017 to ₩642 billion in 2018, mainly as a result of a decrease in expenses related to inter-segment borrowings. While the higher interest rate environment in Korea in 2018 compared to 2017 led to increases in the internal funding rates applicable to both inter-segment borrowings and lendings from 2017 to 2018, the resulting effect on the yield on inter-segment lendings was greater than the effect on the cost of inter-segment borrowings, leading to a decrease in expenses related to inter-segment borrowings.

General and administrative expenses attributable to this segment increased 12.1% from ₩974 billion in 2017 to ₩1,092 billion in 2018, principally due to an increase in compensation and other common administrative expenses shared among the banking-related segments.

Reversal of provision for credit losses increased significantly from ₩7 billion in 2017 to ₩77 billion in 2018, due mainly to an improvement in the asset quality of corporate loans, reflecting a decrease in impaired corporate loans, as well as lower net write-offs of such loans.

Net other non-operating revenue (expense) attributable to this segment changed from a revenue of ₩2 billion in 2017 to an expense of less than ₩1 billion in 2018.

Other Banking Operations

This segment primarily consists of Kookmin Bank’s banking operations other than retail and corporate banking operations, including treasury activities and Kookmin Bank’s “back office” administrative operations. The following table shows, for the periods indicated, our income statement data for this segment:

	Year Ended December 31,			Percentage Change	
	2017	2018	2019	2018/2017	2019/2018
	(in billions of Won)			(%)	
Income statement data					
Interest income	₩ 989	₩1,205	₩1,264	21.8%	4.9%
Interest expense	(628)	(818)	(894)	30.3	9.3
Net fee and commission income	394	344	312	(12.7)	(9.3)
Net gain from financial assets and liabilities at fair value through profit or loss	—	312	425	N/A ⁽¹⁾	36.2
Net loss from financial assets and liabilities at fair value through profit or loss (under IAS 39)	(70)	—	—	N/A ⁽¹⁾	N/A ⁽¹⁾
Net other operating income	923	407	651	(55.9)	60.0
General and administrative expenses	(745)	(705)	(663)	(5.4)	(6.0)
Reversal of provision for credit losses	—	8	7	N/A ⁽¹⁾	(12.5)
Share of profit of associates	38	50	29	31.6	(42.0)
Net other non-operating revenue (expense)	(75)	45	(39)	N/M ⁽²⁾	N/M ⁽²⁾
Profit before income tax	826	847	1,093	2.5	29.0
Tax expense	(155)	(209)	(266)	34.8	27.3
Profit for the year	₩ 671	₩ 638	₩ 827	(4.9)	29.6

⁽¹⁾ “N/A” means not applicable.
⁽²⁾ “N/M” means not meaningful.

Comparison of 2019 to 2018

Our profit before income tax for this segment increased 29.0% from ₩847 billion in 2018 to ₩1,093 billion in 2019.

Interest income from our other banking operations increased 4.9% from ₩1,205 billion in 2018 to ₩1,264 billion in 2019. This increase was attributable primarily to an increase in the average volume of Kookmin Bank’s financial investments portfolio, mainly reflecting higher investments in debt securities issued by Korean financial institutions and corporations, which was offset in part by a decrease in the average yields on such investments.

Interest expense for this segment increased 9.3% from ₩818 billion in 2018 to ₩894 billion in 2019. This increase was principally due to an increase in the average volume of Kookmin Bank’s certificates of deposits, which are classified under this segment, mainly reflecting an amendment to the Regulation on the Supervision of the Banking Business in July 2018 that allows up to 1% of deposits at Korean banks to be comprised of certificates of deposits, which in turn led to increased use of certificates of deposits by Kookmin Bank, which was enhanced by an increase in the average cost of such certificates of deposits.

Net fee and commission income attributable to this segment decreased 9.3% from ₩344 billion in 2018 to ₩312 billion in 2019, mainly due to an increase in credit and debit card related fees paid.

Net gain from financial assets and liabilities at fair value through profit or loss attributable to this segment increased 36.2% from ₩312 billion in 2018 to ₩425 billion in 2019, principally as a result of a decrease in net loss on financial instruments held-for-trading.

Net other operating income attributable to this segment increased 60.0% from ₩407 billion in 2018 to ₩651 billion in 2019, mainly as a result of increases in net gain on beneficiary certificates and income related to inter-segment lendings, as well as a decrease in net loss on foreign exchange translation.

General and administrative expenses attributable to this segment decreased 6.0% from ₩705 billion in 2018 to ₩663 billion in 2019, primarily due to a decrease in salary and employee benefit expenses.

Reversal of provision for credit losses attributable to this segment decreased slightly from ₩8 billion in 2018 to ₩7 billion in 2019.

Share of profit of associates attributable to this segment decreased 42.0% from ₩50 billion in 2018 to ₩29 billion in 2019, principally as a result of a decrease in profits of equity-method investees of Kookmin Bank.

Net other non-operating revenue (expense) attributable to this segment changed from a revenue of ₩45 billion in 2018 to an expense of ₩39 billion in 2019, primarily due to the recognition of a gain on disposal of Kookmin Bank's former headquarters building in Seoul in 2018, which was not repeated in 2019.

Comparison of 2018 to 2017

Our profit before income tax for this segment increased 2.5% from ₩826 billion in 2017 to ₩847 billion in 2018.

Interest income from our other banking operations increased 21.8% from ₩989 billion in 2017 to ₩1,205 billion in 2018. This increase was attributable primarily to an increase in the average volume of Kookmin Bank's financial investments portfolio, mainly reflecting higher investments in debt securities issued by Korean financial institutions and corporations, which was enhanced by an increase in the average yields on such investments.

Interest expense for this segment increased by 30.3% from ₩628 billion in 2017 to ₩818 billion in 2018. This increase was principally due to an increase in the average volume of long-term debentures issued by Kookmin Bank, mainly reflecting greater use of debentures by Kookmin Bank to meet its funding needs, which was enhanced by an increase in the average cost of such debentures.

Net fee and commission income attributable to this segment decreased 12.7% from ₩394 billion in 2017 to ₩344 billion in 2018, mainly due to a decrease in agent activity fees received from affiliates.

Net gain (loss) from financial assets and liabilities at fair value through profit or loss attributable to this segment changed from a net loss under IAS 39 of ₩70 billion in 2017 to a net gain of ₩312 billion in 2018, principally as a result of an increase in net gain on currency derivatives held-for-trading.

Net other operating income attributable to this segment decreased 55.9% from ₩923 billion in 2017 to ₩407 billion in 2018, mainly as a result of decreases in net gain on foreign currency translation and income related to inter-segment lending, which were offset in part by an increase in net gain on sale of debt securities.

General and administrative expenses attributable to this segment decreased 5.4% from ₩745 billion in 2017 to ₩705 billion in 2018, primarily due to a decrease in share-based payments provided to employees of Kookmin Bank from 2017 to 2018.

Reversal of provision for credit losses attributable to this segment increased from less than ₩1 billion in 2017 to ₩8 billion in 2018, principally due to certain consolidation adjustments relating to provisions.

Share of profit of associates attributable to this segment increased 31.6% from ₩38 billion in 2017 to ₩50 billion in 2018, principally as a result of an increase in profits of equity-method investees of Kookmin Bank, which was partially offset by a decrease in gains on disposal of investments in associates and joint ventures.

Net other non-operating revenue (expense) attributable to this segment changed from an expense of ₩75 billion in 2017 to a revenue of ₩45 billion in 2018, primarily due to the recognition of a gain on disposal of Kookmin Bank's former headquarters building in Seoul in 2018, as well as a one-time contribution to the Korea Inclusive Finance Agency made by Kookmin Bank (together with other Korean banks) in 2017 relating to income from unclaimed cashiers' checks, which was not repeated in 2018.

Credit Card Operations

This segment consists of credit card activities conducted by KB Kookmin Card. The following table shows, for the periods indicated, our income statement data for this segment:

	Year Ended December 31,			Percentage Change	
	2017	2018	2019	2018/2017	2019/2018
	(in billions of Won)			(%)	
Income statement data					
Interest income	₩1,341	₩1,474	₩1,581	9.9%	7.3%
Interest expense	(257)	(306)	(351)	19.1	14.7
Net fee and commission income	133	265	262	99.2	(1.1)
Net insurance income	20	18	16	(10.0)	(11.1)
Net gain from financial assets and liabilities at fair value through profit or loss	—	4	—	N/A ⁽¹⁾	N/A ⁽¹⁾
Net other operating expense	(154)	(150)	(247)	(2.6)	64.7
General and administrative expenses	(371)	(405)	(442)	9.2	9.1
Provision for credit losses	(337)	(431)	(440)	27.9	2.1
Share of profit of associates and joint ventures	—	—	1	N/A ⁽¹⁾	N/A ⁽¹⁾
Net other non-operating revenue (expense)	(7)	(32)	3	357.1	N/M ⁽²⁾
Profit before income tax	<u>368</u>	<u>437</u>	<u>384</u>	18.8	(12.1)
Tax expense	(71)	(150)	(67)	111.3	(55.3)
Profit for the year	<u>₩ 297</u>	<u>₩ 287</u>	<u>₩ 317</u>	(3.4)	10.5

⁽¹⁾ "N/A" means not applicable.

⁽²⁾ "N/M" means not meaningful.

Comparison of 2019 to 2018

Our profit before income tax for this segment decreased 12.1% from ₩437 billion in 2018 to ₩384 billion in 2019.

Interest income from our credit card operations increased 7.3% from ₩1,474 billion in 2018 to ₩1,581 billion in 2019. This increase was primarily due to an increase in the average volume of credit card receivables, mainly reflecting increases in the number of credit cards issued and in the use of credit cards by customers, which was offset in part by a decrease in the average yields on such receivables.

Interest expense for this segment increased 14.7% from ₩306 billion in 2018 to ₩351 billion in 2019. This increase was primarily due to an increase in the average volume of debentures issued by KB Kookmin Card, which was partially offset by a decrease in the average cost of such debentures.

Net fee and commission income attributable to this segment decreased slightly from ₩265 billion in 2018 to ₩262 billion in 2019.

Net insurance income attributable to this segment decreased slightly from ₩18 billion in 2018 to ₩16 billion in 2019.

Net other operating expense attributable to this segment increased 64.7% from ₩150 billion in 2018 to ₩247 billion in 2019, primarily due to an increase in membership reward program-related costs mainly as a result of an increase in the number and use of credit cards, which was enhanced by a decrease in net gains on sales of receivables.

General and administrative expenses attributable to this segment increased 9.1% from ₩405 billion in 2018 to ₩442 billion in 2019, mainly due to increases in depreciation and amortization expenses.

Provision for credit losses increased 2.1% from ₩431 billion in 2018 to ₩440 billion in 2019, mainly due to an increase in the balance of credit card receivables.

Share of profit of associates and joint ventures attributable to this segment increased slightly from nil in 2018 to ₩1 billion in 2019.

Net other non-operating revenue (expense) attributable to this segment changed from an expense of ₩32 billion in 2018 to a revenue of ₩3 billion in 2019, primarily due to an increase in tax refund received.

Comparison of 2018 to 2017

Our profit before income tax for this segment increased 18.8% from ₩368 billion in 2017 to ₩437 billion in 2018.

Interest income from our credit card operations increased 9.9% from ₩1,341 billion in 2017 to ₩1,474 billion in 2018. This increase was primarily due to an increase in the average volume of credit card receivables, mainly reflecting increases in the number of credit cards issued and in the use of credit cards by customers, which was offset in part by a decrease in the average yields on such receivables.

Interest expense for this segment increased 19.1% from ₩257 billion in 2017 to ₩306 billion in 2018. This increase was primarily due to increased funding costs for this segment in light of the higher interest rate environment in Korea in 2018 compared to 2017, as well as an increase in the average volume of debentures issued by KB Kookmin Card.

Net fee and commission income attributable to this segment increased 99.2% from ₩133 billion in 2017 to ₩265 billion in 2018, which resulted mainly from an increase in credit card related fees and commissions received, principally due to increases in the number and use of credit cards.

Net insurance income attributable to this segment decreased slightly from ₩20 billion in 2017 to ₩18 billion in 2018.

Net other operating expense attributable to this segment decreased 2.6% from ₩154 billion in 2017 to ₩150 billion in 2018, primarily due to increases in dividend income from equity investments and net gains on sales of receivables, which were offset in part by an increase in membership reward program-related costs mainly as a result of increases in the number and use of credit cards.

General and administrative expenses attributable to this segment increased 9.2% from ₩371 billion in 2017 to ₩405 billion in 2018, mainly due to increases in salary and employee benefit expenses.

Provision for credit losses increased 27.9% from ₩337 billion in 2017 to ₩431 billion in 2018, mainly due to an overall deterioration in the asset quality of our credit card receivables, including existing impaired credit card receivables, as well as an increase in the outstanding volume of such receivables.

Net other non-operating expense attributable to this segment increased 357.1% from ₩7 billion in 2017 to ₩32 billion in 2018, primarily due to an increase in donations.

Investment and Securities Operations

This segment consists primarily of securities brokerage, investment banking, securities investment and trading and other capital markets activities conducted by KB Securities, including its predecessor entities. KB Securities was the surviving entity in the merger in December 2016 of our former subsidiary, KB Investment & Securities, with and into Hyundai Securities, which had become our consolidated subsidiary in October 2016. See “—Overview—Acquisitions.” The following table shows, for the periods indicated, our income statement data for this segment:

	Year Ended December 31,			Percentage Change	
	2017	2018	2019	2018/2017	2019/2018
	(in billions of Won)			(%)	
Income statement data					
Interest income	₩ 800	₩ 819	₩ 852	2.4%	4.0%
Interest expense	(201)	(277)	(322)	37.8	16.2
Net fee and commission income	551	626	580	13.6	(7.3)
Net loss from financial assets and liabilities at fair value through profit or loss	—	(222)	(104)	N/A ⁽¹⁾	(53.2)
Net gain from financial assets and liabilities at fair value through profit or loss (under IAS 39)	179	—	—	N/A ⁽¹⁾	N/A ⁽¹⁾
Net other operating income (expense)	(256)	34	88	N/M ⁽²⁾	158.8
General and administrative expenses	(734)	(735)	(757)	0.1	3.0
Provision for credit losses	(23)	(10)	(14)	(56.5)	40.0
Share of profit of associates and joint ventures	1	—	—	N/A ⁽¹⁾	N/A ⁽¹⁾
Net other non-operating revenue	2	14	31	600.0	121.4
Profit before income tax	<u>319</u>	<u>249</u>	<u>353</u>	(21.9)	41.8
Tax expense	(47)	(70)	(95)	48.9	35.7
Profit for the year	<u>₩ 272</u>	<u>₩ 179</u>	<u>₩ 258</u>	(34.2)	44.1

⁽¹⁾ “N/A” means not applicable.
⁽²⁾ “N/M” means not meaningful.

Comparison of 2019 to 2018

Our profit before income tax for this segment increased 41.8% from ₩249 billion in 2018 to ₩353 billion in 2019.

Interest income from our investment and securities operations increased 4.0% from ₩819 billion in 2018 to ₩852 billion in 2019. This increase was primarily due to an increase in the volume of interest-earning financial assets at fair value through profit or loss held by KB Securities, which was enhanced by a slight increase in the average yields on such financial assets.

Interest expense for this segment increased 16.2% from ₩277 billion in 2018 to ₩322 billion in 2019, principally as a result of an increase in the average cost of debts issued by KB Securities, mainly reflecting the higher interest rate environment in Korea in 2019 compared to 2018, which was enhanced by an increase in the volume of such debts.

Net fee and commission income attributable to this segment decreased 7.3% from ₩626 billion in 2018 to ₩580 billion in 2019, primarily due to a decrease in securities brokerage commissions received.

Net loss from financial assets and liabilities at fair value through profit or loss attributable to this segment decreased 53.2% from ₩222 billion in 2018 to ₩104 billion in 2019, principally due to an increase in net gain on derivative-linked securities, which was offset in part by an increase in loss on financial instruments held for trading.

Net other operating income attributable to this segment increased 158.8% from ₩34 billion in 2018 to ₩88 billion in 2019, primarily due to an increase in net gain on foreign currency translation with respect to foreign currency assets, mainly as a result of the depreciation of the Won against the U.S. dollar during 2019.

General and administrative expenses attributable to this segment increased 3.0% from ₩735 billion in 2018 to ₩757 billion in 2019, primarily due to increases in depreciation and amortization expenses and rent management fees paid, which were largely offset by a decrease in rental expenses.

Provision for credit losses increased 40.0% from ₩10 billion in 2018 to ₩14 billion in 2019, primarily due to a deterioration in the overall asset quality of the loan portfolio of KB Securities.

Share of profit of associates and joint ventures attributable to this segment remained constant at less than ₩1 billion in 2018 and 2019.

Net other non-operating revenue attributable to this segment increased 121.4% from ₩14 billion in 2018 to ₩31 billion in 2019, mainly due to an increase in income from sale of investment properties.

Comparison of 2018 to 2017

Our profit before income tax for this segment decreased 21.9% from ₩319 billion in 2017 to ₩249 billion in 2018.

Interest income from our investment and securities operations increased 2.4% from ₩800 billion in 2017 to ₩819 billion in 2018. This increase was primarily due to an increase in the volume of interest-earning financial assets at fair value through profit or loss held by KB Securities, which was enhanced by an increase in the average yields on such financial assets.

Interest expense for this segment increased 37.8% from ₩201 billion in 2017 to ₩277 billion in 2018, principally as a result of an increase in the average cost of debts, mainly reflecting the higher interest rate environment in Korea in 2018 compared to 2017, which was enhanced by an increase in the volume of debts of KB Securities.

Net fee and commission income attributable to this segment increased 13.6% from ₩551 billion in 2017 to ₩626 billion in 2018, primarily due to increases in securities brokerage commissions as well as investment banking and advisory fees received.

Net gain (loss) from financial assets and liabilities at fair value through profit or loss attributable to this segment changed from a net gain under IAS 39 of ₩179 billion in 2017 to a net loss of ₩222 billion in 2018, principally due to a change in net gain (loss) on derivatives held-for-trading from a net gain in 2017 to a net loss in 2018, which was offset in part by an increase in gains on derivative-linked securities.

Net other operating income (expense) attributable to this segment changed from an expense of ₩256 billion in 2017 to an income of ₩34 billion in 2018, primarily due to an increase in net gain on foreign currency translation with respect to foreign currency assets, mainly as a result of the depreciation of the Won against the U.S. dollar during 2018.

General and administrative expenses attributable to this segment remained relatively stable at ₩735 billion in 2018 compared to ₩734 billion in 2017.

Provision for credit losses decreased 56.5% from ₩23 billion in 2017 to ₩10 billion in 2018, primarily due to an improvement in the overall asset quality of the loan portfolio of KB Securities.

Share of profit of associates and joint ventures attributable to this segment decreased slightly from ₩1 billion in 2017 to less than ₩1 billion in 2018.

Net other non-operating revenue attributable to this segment increased 600.0% from ₩2 billion in 2017 to ₩14 billion in 2018, mainly due to the recognition of a loss on the disposal of Hyundai Savings Bank (a former subsidiary of KB Securities) in 2017, which did not recur in 2018.

Life Insurance Operations

This segment consists of the life insurance operations of KB Life Insurance. The following table shows, for the periods indicated, our income statement data for this segment:

	<u>Year Ended December 31,</u>			<u>Percentage Change</u>	
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2018/2017</u>	<u>2019/2018</u>
	<u>(in billions of Won)</u>			<u>(%)</u>	
Income statement data					
Interest income	₩ 216	₩ 185	₩ 159	(14.4)%	(14.1)%
Net fee and commission expense	(4)	(13)	(17)	225.0	30.8
Net insurance expense	(141)	(140)	(122)	(0.7)	(12.9)
Net gain from financial assets and liabilities at fair value through profit or loss	—	63	67	N/A ⁽¹⁾	6.3
Net gain from financial assets and liabilities at fair value through profit or loss (under IAS 39)	8	—	—	N/A ⁽¹⁾	N/A ⁽¹⁾
Net other operating income (expense)	30	(10)	(2)	N/M ⁽²⁾	(80.0)
General and administrative expenses	(72)	(63)	(67)	(12.5)	6.3
Provision (reversal of provision) for credit losses	(2)	—	3	N/A ⁽¹⁾	N/A ⁽¹⁾
Profit before income tax	<u>35</u>	<u>21</u>	<u>21</u>	(40.0)	—
Tax expense ⁽³⁾	<u>(14)</u>	<u>(6)</u>	<u>(5)</u>	(57.1)	(16.7)
Profit for the year	<u>₩ 21</u>	<u>₩ 15</u>	<u>₩ 16</u>	(28.6)	6.7

⁽¹⁾ “N/A” means not applicable.

⁽²⁾ “N/M” means not meaningful.

⁽³⁾ Represents income tax attributable to KB Life Insurance.

Comparison of 2019 to 2018

Our profit before income tax for this segment remained constant at ₩21 billion in 2018 and 2019.

Interest income from our life insurance operations decreased 14.1% from ₩185 billion in 2018 to ₩159 billion in 2019, primarily due to a decrease in the average volume of the financial investments and loan portfolios of KB Life Insurance, which was enhanced by a decrease in the average yields on such portfolios.

Net fee and commission expense attributable to this segment increased 30.8% from ₩13 billion in 2018 to ₩17 billion in 2019, primarily due to an increase in outsourcing-related fees and commissions paid.

Net insurance expense attributable to this segment decreased 12.9% from ₩140 billion in 2018 to ₩122 billion in 2019, mainly due to an increase in reversal of provision of policy reserves as well as a decrease in expenses related to refunds for insurance contracts that matured or were terminated prematurely, which were offset in part by an increase in insurance claims paid.

Net gain from financial assets and liabilities at fair value through profit or loss attributable to this segment increased 6.3% from ₩63 billion in 2018 to ₩67 billion in 2019, primarily due to an increase in cash and due from financial institutions at fair value through profit or loss.

Net other operating expense attributable to this segment decreased 80.0% from ₩10 billion in 2018 to ₩2 billion in 2019, principally due to an increase in net gain on foreign currency translation with respect to foreign currency assets, mainly as a result of the depreciation of the Won against the U.S. dollar during 2019.

General and administrative expenses attributable to this segment increased 6.3% from ₩63 billion in 2018 to ₩67 billion in 2019, primarily due to increases in depreciation and amortization expenses incurred in connection with our right-of-use assets pursuant to our adoption of IFRS 16 as well as salary expenses, the effects of which were offset in part by a decrease in rental expenses pursuant to our adoption of IFRS 16.

Reversal of provision for credit losses increased from less than ₩1 billion in 2018 to ₩3 billion in 2019.

Comparison of 2018 to 2017

Our profit before income tax for this segment decreased 40.0% from ₩35 billion in 2017 to ₩21 billion in 2018.

Interest income from our life insurance operations decreased 14.4% from ₩216 billion in 2017 to ₩185 billion in 2018, primarily due to a decrease in the average volume of the financial investments and loan portfolios of KB Life Insurance, which was offset in part by an increase in the average yields on such portfolios.

Net fee and commission expense attributable to this segment increased 225.0% from ₩4 billion in 2017 to ₩13 billion in 2018, primarily due to an increase in outsourcing-related fees and commissions paid.

Net insurance expense attributable to this segment remained relatively stable at ₩140 billion in 2018 compared to ₩141 billion in 2017.

Net gain from financial assets and liabilities at fair value through profit or loss attributable to this segment increased significantly from a net gain under IAS 39 of ₩8 billion in 2017 to a net gain of ₩63 billion in 2018, primarily due to an increase in dividend income from beneficiary certificates, which reflected the reclassification of such beneficiary certificates from available-for-sale financial assets in 2017 under IAS 39 to financial assets at fair value through profit or loss in 2018 under IFRS 9.

Net other operating income (expense) attributable to this segment changed from income of ₩30 billion in 2017 to an expense of ₩10 billion in 2018, principally due to a decrease in dividend income from beneficiary certificates, which reflected the reclassification of such beneficiary certificates under IFRS 9, as discussed above.

General and administrative expenses attributable to this segment decreased 12.5% from ₩72 billion in 2017 to ₩63 billion in 2018, primarily due to decreases in share-based payments, rental expenses and depreciation and amortization expenses.

Provision for credit losses decreased from ₩2 billion in 2017 to less than ₩1 billion in 2018.

Non-Life Insurance Operations

This segment consists of the non-life insurance operations of KB Insurance. KB Insurance became a consolidated subsidiary in May 2017 and subsequently became a wholly-owned subsidiary in July 2017. See “—Overview—Acquisitions.” The following table shows, for the periods indicated, our income statement data for this segment:

	Year Ended December 31,			Percentage Change	
	2017 ⁽¹⁾	2018	2019	2018/2017	2019/2018
	(in billions of Won)			(%)	
Income statement data					
Interest income	₩ 465	₩ 616	₩ 618	32.5%	0.3%
Net fee and commission expense	(98)	(147)	(153)	50.0	4.1
Net insurance income	700	611	415	(12.7)	(32.1)
Net gain from financial assets and liabilities at fair value through profit or loss	—	181	265	N/A ⁽²⁾	46.4
Net gain from financial assets and liabilities at fair value through profit or loss (under IAS 39)	41	—	—	N/A ⁽²⁾	N/A ⁽²⁾
Net other operating income (expense)	31	(98)	(13)	N/M ⁽³⁾	(86.7)
General and administrative expenses	(629)	(789)	(844)	25.4	7.0
Provision (reversal of provision) for credit losses	(9)	(14)	13	55.6	N/M ⁽³⁾
Net other non-operating revenue	11	7	26	(36.4)	271.4
Profit before income tax	<u>512</u>	<u>367</u>	<u>327</u>	(28.3)	(10.9)
Tax expense	<u>(181)</u>	<u>(105)</u>	<u>(92)</u>	(42.0)	(12.4)
Profit for the year	<u>₩ 330</u>	<u>₩ 262</u>	<u>₩ 235</u>	(20.8)	(10.3)

⁽¹⁾ Income statement data for 2017 represents such data for KB Insurance for the period after it became our consolidated subsidiary in May 2017.

⁽²⁾ “N/A” means not applicable.

⁽³⁾ “N/M” means not meaningful.

Comparison of 2019 to 2018

Our profit before income tax for this segment decreased 10.9% from ₩367 billion in 2018 to ₩327 billion in 2019.

Interest income attributable to this segment increased slightly from ₩616 billion in 2018 to ₩618 billion in 2019.

Net fee and commission expense attributable to this segment increased 4.1% from ₩147 billion in 2018 to ₩153 billion in 2019, mainly due to an increase in payment and outsourcing-related fees paid.

Net insurance income attributable to this segment decreased 32.1% from ₩611 billion in 2018 to ₩415 billion in 2019, primarily due to an increase in insurance expenses, mainly reflecting an increase in insurance claims paid, which outpaced an increase in insurance income.

Net gain from financial assets and liabilities at fair value through profit or loss attributable to this segment increased 46.4% from ₩181 billion in 2018 to ₩265 billion in 2019, primarily as a result of an increase in gains on other foreign currency-denominated security investments, which was enhanced by a decrease in losses on foreign and local currency-denominated security investments.

Net other operating expense attributable to this segment decreased 86.7% from ₩98 billion in 2018 to ₩13 billion in 2019, due mainly to an increase in net gain on disposal of financial assets at fair value through other comprehensive income.

General and administrative expenses attributable to this segment increased 7.0% from ₩789 billion in 2018 to ₩844 billion in 2019, principally due to an increase in employee compensation and benefits, which was partially offset by a decrease in rental expenses.

Provision (reversal of provision) for credit losses changed from a provision of ₩14 billion in 2018 to a reversal of provision of ₩13 billion in 2019, primarily due to an increase in the reversal of provision for loans in Won.

Net other non-operating revenue attributable to this segment increased 271.4% from ₩7 billion in 2018 to ₩26 billion in 2019, principally due to a decrease in donations.

Comparison of 2018 to 2017

Our profit before income tax for this segment decreased 28.3% from ₩512 billion in 2017 to ₩367 billion in 2018.

Interest income attributable to this segment increased 32.5% from ₩465 billion in 2017 to ₩616 billion in 2018, primarily due to an increase in the average volume of financial investments and loans, mainly reflecting the full-year effect of the addition of KB Insurance as a consolidated subsidiary in May 2017.

Net insurance income attributable to this segment decreased 12.7% from ₩700 billion in 2017 to ₩611 billion in 2018, primarily due to an increase in insurance expenses, mainly reflecting an increase in insurance claims paid on long-term and automobile insurance policies, which outpaced an increase in insurance income.

Net fee and commission expense attributable to this segment increased 50.0% from ₩98 billion in 2017 to ₩147 billion in 2018, due mainly to an increase in the commissions paid to insurance agents, primarily reflecting the full-year effect of the addition of KB Insurance as a consolidated subsidiary in May 2017.

Net gain from financial assets and liabilities at fair value through profit or loss attributable to this segment increased from a net gain under IAS 39 of ₩41 billion in 2017 to a net gain of ₩181 billion in 2018, primarily as a result of an increase in dividend income from beneficiary certificates, which reflected the reclassification of such beneficiary certificates from available-for-sale financial assets in 2017 under IAS 39 to financial assets at fair value through profit or loss in 2018 under IFRS 9.

Net other operating income (expense) attributable to this segment changed from an income of ₩31 billion in 2017 to an expense of ₩98 billion in 2018, due mainly to a decrease in net gain on derivatives held for fair value hedging and a decrease in dividend income from beneficiary certificates, which reflected the reclassification of such beneficiary certificates under IFRS 9, as discussed above. Such decreases were offset in part by an increase in net gain on foreign exchange transactions.

General and administrative expenses attributable to this segment increased 25.4% from ₩629 billion in 2017 to ₩789 billion in 2018, principally due to an increase in salary expenses, mainly reflecting the full-year effect of the addition of KB Insurance as a consolidated subsidiary in May 2017.

Provision for credit losses increased 55.6% from ₩9 billion in 2017 to ₩14 billion in 2018, primarily due to an increase in provisions relating to insurance premium receivables, mainly as a result of an increase in the volume of such receivables.

Net other non-operating revenue attributable to this segment decreased 36.4% from ₩11 billion in 2017 to ₩7 billion in 2018, principally due to an increase in donations.

Other

“Other” includes the operations of our holding company and all of our subsidiaries that were consolidated under IFRS as issued by the IASB as of December 31, 2019 except Kookmin Bank, KB Kookmin Card, KB Securities (including its predecessor entities), KB Life Insurance and KB Insurance, including principally KB Asset Management, KB Real Estate Trust, KB Investment, KB Credit Information, KB Data System, KB Savings Bank and KB Capital. See “—Overview—Acquisitions.” The following table shows, for the periods indicated, our income statement data for this segment:

	Year Ended December 31,			Percentage Change	
	2017	2018	2019	2018/2017	2019/2018
	(in billions of Won)			(%)	
Income statement data					
Interest income	₩ 602	₩ 645	₩ 688	7.1%	6.7%
Interest expense	(286)	(354)	(391)	23.8	10.5
Net fee and commission income	253	386	541	52.6	40.2
Net gain from financial assets and liabilities at fair value through profit or loss	—	89	138	N/A ⁽¹⁾	55.1
Net gain from financial assets and liabilities at fair value through profit or loss (under IAS 39)	1	—	—	N/A ⁽¹⁾	N/A ⁽¹⁾
Net other operating expense	(53)	(137)	(243)	158.5	77.4
General and administrative expenses	(292)	(309)	(374)	5.8	21.0
Provision for credit losses	(63)	(124)	(128)	96.8	3.2
Share of profit of associates	6	3	7	(50.0)	133.3
Net other non-operating revenue	7	17	35	142.9	105.9
Profit before income tax	175	216	273	23.4	26.4
Tax expense ⁽³⁾	(62)	(88)	(90)	41.9	2.3
Profit for the year	₩ 113	₩ 128	₩ 182	13.3	42.2

⁽¹⁾ “N/A” means not applicable.

⁽²⁾ “N/M” means not meaningful.

⁽³⁾ Represents income tax attributable to our holding company and all of our subsidiaries that were consolidated under IFRS as issued by the IASB except Kookmin Bank, KB Kookmin Card, KB Securities (including its predecessor entities), KB Life Insurance and KB Insurance.

Comparison of 2019 to 2018

Our profit before income tax for this segment increased 26.4% from ₩216 billion in 2018 to ₩273 billion in 2019.

Interest income attributable to this segment increased 6.7% from ₩645 billion in 2018 to ₩688 billion in 2019. This increase was primarily due to an increase in interest income on loans at amortized cost of KB Capital.

Interest expense attributable to this segment increased 10.5% from ₩354 billion in 2018 to ₩391 billion in 2019, mainly due to an increase in interest expense on debentures of KB Capital and our holding company.

Net fee and commission income attributable to this segment increased 40.2% from ₩386 billion in 2018 to ₩541 billion in 2019, principally reflecting an increase in lease and rental fees received by KB Capital.

Net gain from financial assets and liabilities at fair value through profit or loss attributable to this segment increased 55.1% from ₩89 billion in 2018 to ₩138 billion in 2019, primarily as a result of a decrease in net loss on derivatives held-for-trading by a consolidated fund owned by our holding company.

Net other operating expense attributable to this segment increased 77.4% from ₩137 billion in 2018 to ₩243 billion in 2019, which mainly reflected an increase in depreciation and amortization expenses with respect to leased assets of KB Capital.

General and administrative expenses attributable to this segment increased 21.0% from ₩309 billion in 2018 to ₩374 billion in 2019, principally due to an increase in depreciation and amortization expenses related to our right-of-use assets, which was partially offset by a decrease in rental expenses, both pursuant to our adoption of IFRS 16.

Provision for credit losses increased 3.2% from ₩124 billion in 2018 to ₩128 billion in 2019, primarily due to an increase in provision for loan losses for KB Capital, which was offset in part by a decrease in provision for loan losses for KB Real Estate Trust.

Share of profit of associates attributable to this segment increased 133.3% from ₩3 billion in 2018 to ₩7 billion in 2019, mainly reflecting an increase in profits of equity-method investees of KB Investment.

Net other non-operating revenue attributable to this segment increased 105.9% from ₩17 billion in 2018 to ₩35 billion in 2019, principally reflecting an increase in rental income of real estate funds included in this segment.

Comparison of 2018 to 2017

Our profit before income tax for this segment increased 23.4% from ₩175 billion in 2017 to ₩216 billion in 2018.

Interest income attributable to this segment increased 7.1% from ₩602 billion in 2017 to ₩645 billion in 2018. This increase was primarily due to an increase in interest income on loans of KB Capital.

Interest expense attributable to this segment increased 23.8% from ₩286 billion in 2017 to ₩354 billion in 2018, mainly due to an increase in interest expense on debentures of KB Capital and our holding company.

Net fee and commission income attributable to this segment increased 52.6% from ₩253 billion in 2017 to ₩386 billion in 2018, principally reflecting an increase in automobile rental and lease fees received by KB Capital, as well as increases in trust and other fiduciary fees received by KB Real Estate Trust.

Net gain from financial assets and liabilities at fair value through profit or loss attributable to this segment increased from a net gain under IAS 39 of ₩1 billion in 2017 to a net gain of ₩89 billion in 2018, primarily as a result of an increase in net gain on valuation of equity securities held by KB Investment, which reflected the reclassification of such securities from available-for-sale financial assets in 2017 under IAS 39 to financial assets at fair value through profit or loss in 2018 under IFRS 9.

Net other operating expense attributable to this segment increased 158.5% from ₩53 billion in 2017 to ₩137 billion in 2018, which mainly reflected an increase in depreciation and amortization expenses with respect to leased assets of KB Capital.

General and administrative expenses attributable to this segment increased 5.8% from ₩292 billion in 2017 to ₩309 billion in 2018, principally due to increases in depreciation and amortization expenses of real estate funds included in this segment and service fees paid by our holding company.

Provision for credit losses increased 96.8% from ₩63 billion in 2017 to ₩124 billion in 2018, primarily due to an increase in provision for loan losses for KB Capital and KB Real Estate Trust.

Share of profit of associates attributable to this segment decreased 50.0% from ₩6 billion in 2017 to ₩3 billion in 2018, mainly reflecting a decrease in profits of equity-method investees of KB Investment.

Net other non-operating revenue attributable to this segment increased 142.9% from ₩7 billion in 2017 to ₩17 billion in 2018, principally reflecting an increase in rental income of real estate funds included in this segment.

Item 5.B. Liquidity and Capital Resources

Financial Condition

Assets

The following table sets forth, as of the dates indicated, the principal components of our assets:

	As of December 31,			Percentage Change	
	2017	2018	2019	2018/2017	2019/2018
	(in billions of Won)			(%)	
Cash and due from financial institutions	₩ 19,818	₩ 20,274	₩ 20,838	2.3%	2.8%
Financial assets at fair value through profit or loss					
loss	—	50,988	53,549	N/A ⁽¹⁾	5.0
Financial assets at fair value through profit or loss (under IAS 39)	32,227	—	—	N/A ⁽¹⁾	N/A ⁽¹⁾
Derivative financial assets	3,310	2,026	3,191	(38.8)	57.5
Financial investments	66,608	61,665	71,783	(7.4)	16.4
Loans:					
Loans to banks	5,315	3,484	4,011	(34.4)	15.1
Loans to customers other than banks:					
Loans in Won	252,645	276,859	289,616	9.6	4.6
Loans in foreign currencies	3,200	4,970	8,558	55.3	72.2
Domestic import usance bills	2,129	2,817	2,618	32.3	(7.1)
Off-shore funding loans	731	845	1,388	15.6	64.3
Call loans	335	1,474	610	340.0	(58.6)
Bills bought in Won	4	3	3	(25.0)	—
Bills bought in foreign currencies	3,876	3,427	2,159	(11.6)	(37.0)
Guarantee payments under payment guarantee	6	4	3	(33.3)	(25.0)
Credit card receivables in Won	15,201	17,346	18,642	14.1	7.5
Credit card receivables in foreign currencies	4	8	6	100.0	(25.0)
Bonds purchased under repurchase agreements	1,198	3,342	6,149	179.0	84.0
Privately placed bonds	1,995	823	971	(58.7)	18.0
Factored receivables	53	6	—	(88.7)	N/A ⁽¹⁾
Lease receivables	1,834	1,795	1,580	(2.1)	(12.0)
Loans for installment credit	3,707	4,608	5,776	24.3	25.3
Total loans to customers other than banks	286,918	318,327	338,081	10.9	6.2
Less:					
Allowances for loan losses	(2,110)	(2,609)	(2,408)	23.6	(7.7)
Total loans, net	290,123	319,202	339,684	10.0	6.4
Property and equipment	4,202	4,271	5,067	1.6	18.6
Other assets ⁽²⁾	20,498	21,161	24,427	3.2	15.4
Total assets	₩436,786	₩479,588	₩518,538	9.8	8.1

⁽¹⁾ “N/A” means not applicable.

⁽²⁾ Includes investments in associates and joint ventures, investment properties, intangible assets, net defined benefit assets, current income tax assets, deferred income tax assets, assets held for sale and other assets.

For further information on our assets, see “Item 4.B. Business Overview—Assets and Liabilities.”

Comparison of 2019 to 2018

Our total assets increased 8.1% from ₩479,588 billion as of December 31, 2018 to ₩518,538 billion as of December 31, 2019, principally due to a 4.6% increase in loans in Won from ₩276,859 billion as of December 31, 2018 to ₩289,616 billion as of December 31, 2019, as well as an increase in financial investments from ₩61,665 billion as of December 31, 2018 to ₩71,783 billion as of December 31, 2019.

Comparison of 2018 to 2017

Our total assets increased 9.8% from ₩436,786 billion as of December 31, 2017 to ₩479,588 billion as of December 31, 2018, principally due to a 9.6% increase in loans in Won from ₩252,645 billion as of December 31, 2017 to ₩276,859 billion as of December 31, 2018, as well as an increase in financial assets at fair value through profit or loss from ₩32,227 billion under IAS 39 as of December 31, 2017 to ₩50,988 billion as of December 31, 2018.

Liabilities and Equity

The following table sets forth, as of the dates indicated, the principal components of our liabilities and our equity:

	As of December 31,			Percentage Change	
	2017	2018	2019	2018/2017	2019/2018
	(in billions of Won)			(%)	
Liabilities:					
Financial liabilities at fair value through profit or loss	₩ —	₩ 15,327	₩ 15,368	N/A ⁽¹⁾	0.3%
Financial liabilities at fair value through profit or loss (under IAS 39)	12,023	—	—	N/A ⁽¹⁾	N/A ⁽¹⁾
Deposits	255,800	276,770	305,593	8.2%	10.4
Debts	28,821	33,005	37,819	14.5	14.6
Debentures	44,993	53,279	50,936	18.4	(4.4)
Provisions	568	526	528	(7.4)	0.4
Insurance contract liabilities	31,801	33,413	34,967	5.1	4.7
Other liabilities ⁽²⁾	28,735	31,556	34,208	9.8	8.4
Total liabilities	402,741	443,875	479,419	10.2	8.0
Equity:					
Capital stock	2,091	2,091	2,091	—	—
Hybrid securities	—	—	399	N/A ⁽¹⁾	N/A ⁽¹⁾
Capital surplus	17,122	17,122	17,123	—	—
Accumulated other comprehensive income	538	178	348	(66.9)	95.5
Retained earnings	15,044	17,282	19,710	14.9	14.0
Treasury shares	(756)	(969)	(1,136)	28.2	17.2
Equity attributable to stockholders	34,039	35,704	38,534	4.9	7.9
Non-controlling interests	6	9	585	50.0	N/M ⁽³⁾
Total equity	34,045	35,713	39,119	4.9	9.5
Total liabilities and equity	₩436,786	₩479,588	₩518,538	9.8	8.1

⁽¹⁾ “N/A” means not applicable.

⁽²⁾ Includes derivative financial liabilities, current income tax liabilities, deferred income tax liabilities, net defined benefit liabilities and other liabilities.

⁽³⁾ “N/M” means not meaningful.

Comparison of 2019 to 2018

Our total liabilities increased 8.0% from ₩443,875 billion as of December 31, 2018 to ₩479,419 billion as of December 31, 2019. The increase was primarily due to a 10.4% increase in deposits from ₩276,770 billion as of December 31, 2018 to ₩305,593 billion as of December 31, 2019, as well as a 14.6% increase in debts from ₩33,005 billion as of December 31, 2018 to ₩37,819 billion as of December 31, 2019. Our deposits increased mainly as a result of an increase in time deposits and demand deposits.

Our total equity increased 9.5% from ₩35,713 billion as of December 31, 2018 to ₩39,119 billion as of December 31, 2019. This increase resulted principally from an increase in our retained earnings, which was attributable mainly to the profit we generated in 2019, as well as our issuance of hybrid securities in 2019, compared to no such issuance in 2018.

Comparison of 2018 to 2017

Our total liabilities increased 10.2% from ₩402,741 billion as of December 31, 2017 to ₩443,875 billion as of December 31, 2018. The increase was primarily due to an 8.2% increase in deposits from ₩255,800 billion as of December 31, 2017 to ₩276,770 billion as of December 31, 2018, as well as a 18.4% increase in debentures from ₩44,993 billion as of December 31, 2017 to ₩53,279 billion as of December 31, 2018. Our deposits increased mainly as a result of an increase in time deposits.

Our total equity increased 4.9% from ₩34,045 billion as of December 31, 2017 to ₩35,713 billion as of December 31, 2018. This increase resulted principally from an increase in our retained earnings, which was attributable mainly to the profit we generated in 2018.

Liquidity

Our primary source of funding has historically been and continues to be deposits. Deposits amounted to ₩255,800 billion, ₩276,770 billion and ₩305,593 billion as of December 31, 2017, 2018 and 2019, which represented approximately 77.6%, 76.2% and 77.5% of our total funding, respectively. We have been able to use customer deposits to finance our operations generally, including meeting a portion of our liquidity requirements. Although the majority of deposits are short-term, it has been our experience that the majority of our depositors generally roll over their deposits at maturity, thus providing us with a stable source of funding. However, in the event that a substantial number of our depositors do not roll over their deposits or otherwise decide to withdraw their deposited funds, we would need to place increased reliance on alternative sources of funding, some of which may be more expensive than customer deposits, in order to finance our operations. See “Item 3.D. Risk Factors—Risks relating to liquidity and capital management—Our funding is highly dependent on short-term deposits, which dependence may adversely affect our operations.” In particular, we may increase our utilization of alternative funding sources such as short-term borrowings and cash and cash equivalents (including funds from maturing loans), as well as liquidating our positions in financial assets and using the proceeds to fund parts of our operations, as necessary.

We also obtain funding through debentures and debts to meet our liquidity needs. Debentures represented 13.7%, 14.7% and 12.9% of our total funding as of December 31, 2017, 2018 and 2019, respectively. Debts represented 8.7%, 9.1% and 9.6% of our total funding as of December 31, 2017, 2018 and 2019, respectively. For further information on our sources of funding, see “Item 4.B. Business Overview—Assets and Liabilities—Funding.”

The Financial Services Commission of Korea requires each financial holding company in Korea to maintain specific Won and foreign currency liquidity ratios and each bank in Korea to maintain a liquidity coverage ratio and a foreign currency liquidity coverage ratio. These ratios require us and Kookmin Bank to keep the ratio of liquid assets to liquid liabilities above certain minimum levels. For a description of these requirements, see

“Item 4.B. Business Overview—Supervision and Regulation—Principal Regulations Applicable to Financial Holding Companies—Liquidity” and “Item 4.B. Business Overview—Supervision and Regulation—Principal Regulations Applicable to Banks—Liquidity.”

We are exposed to liquidity risk arising from withdrawals of deposits, payments of insurance contract claims and refunds, and maturities of our debentures and debts, as well as the need to fund our lending, trading and investment activities (including our capital expenditures) and the management of our trading positions. The goal of liquidity management is for us to be able, even under adverse conditions, to meet all of our liability repayments on time and fund all investment opportunities. For an explanation of how we manage our liquidity risk, see “Item 11. Quantitative and Qualitative Disclosures about Market Risk—Liquidity Risk Management.” In March 2016, we entered into a land purchase agreement for the purchase of a site located in Yeouido, Seoul, on which we plan to construct a new headquarters building for Kookmin Bank. We anticipate that our total capital expenditures for the construction of the building, which is scheduled to be completed in August 2020, will amount to approximately ₩425 billion, of which an aggregate amount of ₩207 billion was incurred as of December 31, 2019.

We are a financial holding company, and substantially all of our operations are in our subsidiaries. Accordingly, we rely on distributions from our subsidiaries (as well as associates), direct borrowings and issuances of debt and equity securities to fund our liquidity obligations at the holding company level. We received aggregate dividends of ₩710 billion, ₩1,090 billion and ₩927 billion from our subsidiaries and associates in 2017, 2018 and 2019, respectively. See “Item 3.D. Risk Factors—Risks relating to our financial holding company structure and strategy.”

Asset Encumbrance

Part of our future funding and collateral needs are supported by assets readily available and unrestricted. The following table sets forth our assets that are available and those that are encumbered and not available to support our future funding and collateral needs as of December 31, 2019.

	December 31, 2019			
	Assets	Encumbered Asset ⁽¹⁾	Unencumbered Assets	
			Readily Available ⁽²⁾	Other
	(in billions of Won)			
On-balance sheet				
Cash and due from financial institutions	₩ 20,838	₩ 4,555	₩15,552	₩ 731
Financial assets at fair value through profit or loss	53,549	8,441	12,941	32,167
Derivative financial assets	3,191	—	—	3,191
Loans	339,684	8,988	—	330,696
Financial investments	71,783	8,961	41,323	21,499
Investments in associates and joint ventures	598	—	—	598
Property and equipment	5,067	—	—	5,067
Investment property	2,828	1,670	—	1,158
Intangible assets	2,738	—	—	2,738
Net defined benefit assets	1	—	—	1
Current income tax assets	19	—	—	19
Deferred income tax assets	4	—	—	4
Assets held for sale	23	—	—	23
Other assets	18,215	4	—	18,211
Total on-balance sheet	<u>₩518,538</u>	<u>₩ 32,619</u>	<u>₩69,816</u>	<u>₩416,103</u>
Off-balance sheet				
Fair value of securities accepted as collateral	₩ 6,727	₩ —	₩ 6,727	₩ —
Total off-balance sheet	<u>₩ 6,727</u>	<u>₩ —</u>	<u>₩ 6,727</u>	<u>₩ —</u>

- (1) Represent assets that have been pledged as collateral against an existing liability or are otherwise restricted in their use to secure funding.
(2) Represent those on- and off-balance sheet assets that are not otherwise encumbered, and which are in freely transferable form.

Contractual Cash Obligations

The following table sets forth our contractual cash obligations (excluding short-term borrowings) as of December 31, 2019.

	Payments Due by Period				
	Total	1 Year or Less	1-3 Years	3-5 Years	More Than 5 Years
	(in billions of Won)				
Long-term borrowing obligations ⁽¹⁾⁽²⁾	₩ 61,152	₩ 19,371	₩25,183	₩12,026	₩ 4,572
Lease liabilities ⁽³⁾	578	193	234	85	66
Pension obligations	215	215	—	—	—
Deposits ⁽²⁾⁽⁴⁾	173,533	160,303	10,411	398	2,421
Total	<u>₩235,478</u>	<u>₩ 180,082</u>	<u>₩35,828</u>	<u>₩12,509</u>	<u>₩ 7,059</u>

- (1) Includes debt and debentures with original maturities of one year or more.
(2) Includes estimated future interest payments, which have been estimated using contractual interest rates and scheduled contractual maturities of the outstanding debt obligations and borrowings as of December 31, 2019. In order to calculate future interest payments on debt with floating rates, we used contractual interest rates as of December 31, 2019.
(3) Reflects our adoption of IFRS 16, pursuant to which we now combine operating lease obligations and capital lease operations into a single line item. See “—Overview—Changes in Accounting Standards—Adoption of IFRS 16.”
(4) Excluding demand deposits.

Commitments and Guarantees

The following table sets forth our commitments and guarantees as of December 31, 2019. These commitments and guarantees are not included within our consolidated statements of financial position.

	Payments Due by Period				
	Total	1 Year or Less	1-3 Years	3-5 Years	More Than 5 Years
	(in billions of Won)				
Financial guarantees ⁽¹⁾	₩ 3,847	₩ 1,174	₩2,255	₩ 369	₩ 49
Confirmed acceptances and guarantees	5,827	3,849	1,756	195	27
Commitments	151,805	119,314	5,260	1,293	25,938
Total	<u>₩161,479</u>	<u>₩ 124,337</u>	<u>₩9,271</u>	<u>₩1,857</u>	<u>₩26,014</u>

- (1) Includes ₩2,932 billion of irrevocable commitments to provide contingent liquidity credit lines to special purpose entities for which we serve as the administrator. See Note 39 of the notes to our consolidated financial statements.

Capital Adequacy

Kookmin Bank is subject to capital adequacy requirements of the Financial Services Commission applicable to Korean banks. The requirements applicable commencing in December 2013 pursuant to amended Financial Services Commission regulations promulgated in July 2013 were formulated based on Basel III, which was first introduced by the Basel Committee on Banking Supervision, Bank for International Settlements in December 2009. Under the amended Financial Services Commission regulations, all banks in Korea are required to maintain certain minimum ratios of common equity Tier I capital, total Tier I capital and total Tier I and Tier II capital to risk-weighted assets. See “Item 4.B. Business Overview—Supervision and Regulation—Principal Regulations Applicable to Banks—Capital Adequacy.”

As of December 31, 2019, Kookmin Bank's total Tier I and Tier II capital adequacy ratio was 15.85%.

The following table sets forth a summary of Kookmin Bank's capital and capital adequacy ratios as of December 31, 2017, 2018 and 2019, based on applicable regulatory reporting standards.

	As of December 31,		
	2017	2018	2019
	(in billions of Won, except percentages)		
Tier I capital:	₩ 24,040	₩ 25,568	₩ 27,610
Common equity Tier I capital	24,040	25,568	27,035
Paid-in capital	2,022	2,022	2,022
Capital reserves	5,220	5,219	5,219
Retained earnings	17,404	19,311	21,065
Non-controlling interests in consolidated subsidiaries	—	—	—
Others	(606)	(984)	(1,271)
Additional Tier I capital	—	—	575
Tier II capital:	1,873	2,126	2,200
Revaluation reserves	—	—	—
Allowances for credit losses ⁽¹⁾	51	69	59
Hybrid debt	—	—	—
Subordinated debt	1,822	2,057	2,141
Valuation gain on financial investments	—	—	—
Others	—	—	—
Total core and supplementary capital	25,913	27,694	29,810
Risk-weighted assets	161,825	178,433	188,075
Credit risk:			
On-balance sheet	139,448	154,189	158,488
Off-balance sheet	6,511	9,504	14,497
Market risk	5,747	4,748	5,151
Operational risk	10,119	9,992	9,939
Total Tier I and Tier II capital adequacy ratio	16.01%	15.52%	15.85%
Tier I capital adequacy ratio	14.86%	14.33%	14.68%
Common equity Tier I capital adequacy ratio	14.86%	14.33%	14.37%
Tier II capital adequacy ratio	1.16%	1.19%	1.17%

⁽¹⁾ Under the standardized approach, allowances for credit losses in respect of credits classified as normal or precautionary are used to calculate Tier II capital only to the extent they represent up to 1.25% of credit risk-weighted assets. Under the internal ratings-based approach, allowances for credit losses, less estimated losses, are used to calculate Tier II capital only to the extent they represent up to 0.6% of credit risk-weighted assets.

In addition, we, as a bank holding company, are required to maintain certain minimum capital adequacy ratios pursuant to applicable regulations of the Financial Services Commission. See “Item 4.B. Business Overview—Supervision and Regulation—Principal Regulations Applicable to Financial Holding Companies—Capital Adequacy.”

The following table sets forth a summary of our consolidated capital adequacy ratio as of December 31, 2017, 2018 and 2019, based on applicable regulatory reporting standards.

	As of December 31,		
	2017	2018	2019
	(in billions of Won)		
Tier I capital			
Common equity Tier I capital	₩ 31,059	₩ 32,994	₩ 34,710
Additional Tier I capital	—	—	716
Total Tier I capital	₩ 31,059	₩ 32,994	₩ 35,426
Tier II capital	1,342	1,482	1,569
Risk-weighted assets	₩212,777	₩236,099	₩255,549
Total Tier I and Tier II capital adequacy ratio	15.23%	14.60%	14.48%
Tier I capital adequacy ratio	14.60%	13.97%	13.86%
Common equity Tier I capital adequacy ratio	14.60%	14.60%	13.58%
Tier II capital adequacy ratio	0.63%	0.63%	0.62%

Recent Accounting Pronouncements

See Note 2.1 of the notes to our consolidated financial statements for a description of other recent accounting pronouncements under IFRS as issued by the IASB that have been issued but are not yet effective.

Item 5.C. Research and Development, Patents and Licenses, etc.

Not applicable.

Item 5.D. Trend Information

These matters are discussed under Item 5.A. and Item 5.B. above where relevant.

Item 5.E. Off-Balance Sheet Arrangements

See “Item 5B. Liquidity and Capital Resources—Financial Condition—Contractual Cash Obligations” and “Item 5B. Liquidity and Capital Resources—Financial Condition—Commitments and Guarantees.”

Item 5.F. Tabular Disclosure of Contractual Obligations

See “Item 5B. Liquidity and Capital Resources—Financial Condition—Contractual Cash Obligations.”

Item 5.G. Safe Harbor

See “Forward-Looking Statements.”

Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Item 6.A. Directors and Senior Management

Board of Directors

Our board of directors, currently consisting of one executive director, one non-standing director and seven non-executive directors, has the ultimate responsibility for the management of our affairs.

Our articles of incorporation provide that:

- we may have no more than 30 directors;
- the number of executive directors must be less than 50% of the total number of directors; and
- we have five or more non-executive directors.

The term of office for each director is renewable and is subject to the Korean Commercial Code, the Act on the Corporate Governance of Financial Companies and related regulations.

Our board of directors meets on a regular basis to discuss and resolve material corporate matters. Additional extraordinary meetings may also be convened at the request of any director or any committee that serves under the board of directors.

The names and positions of our directors are set forth below. The business address of all of the directors is our registered office at 26, Gukjegeumyung-ro 8-gil, Yeongdeungpo-gu, Seoul 07331, Korea.

Executive Director

The table below identifies our executive director as of the date of this annual report:

Name	Date of Birth	Position	Director Since	End of Term
Jong Kyoo Yoon . . .	October 13, 1955	Chairman and Chief Executive Officer	November 21, 2014	November 20, 2020

Our executive director does not have any significant activities outside KB Financial Group.

Jong Kyoo Yoon is our chairman and chief executive officer. He has been an executive director since November 2014. He previously served as the president and chief executive officer of Kookmin Bank, our deputy president, chief financial officer and chief risk management officer, a senior advisor of Kim & Chang, a senior executive vice president, chief financial officer and chief strategic officer of Kookmin Bank and a senior partner of Samil PricewaterhouseCoopers. Mr. Yoon received a B.A. in business administration from Sungkyunkwan University, an M.B.A. from Seoul National University and a Ph.D. in business administration from Sungkyunkwan University.

Non-standing Director

The table below identifies our non-standing director as of the date of this annual report:

Name	Date of Birth	Position	Director Since	End of Term
Yin Hur	December 19, 1961	Non-standing director; President and Chief Executive Officer of Kookmin Bank	November 21, 2017	November 20, 2020

Yin Hur has been a non-standing director since November 2017. He currently serves as the president and chief executive officer of Kookmin Bank. Mr. Hur previously served as a senior executive vice president of the sales group, a senior managing director of the strategy and finance planning group, and a managing director of the credit analysis division, at Kookmin Bank. Mr. Hur received a B.A. in law and an M.A. in law from Seoul National University.

Non-executive Directors

Our non-executive directors are selected based on the candidates' knowledge and experience in diverse areas, such as financial business, accounting, finance, law and regulation, risk management and consumer protection. All seven non-executive directors below were nominated by our Non-executive Director Nominating Committee and approved by our shareholders.

The table below identifies our non-executive directors as of the date of this annual report:

<u>Name</u>	<u>Date of Birth</u>	<u>Position</u>	<u>Director Since</u>	<u>Date Term Ends⁽¹⁾</u>
Suk Ho Sonu	September 16, 1951	Chairman of the Board and Non-executive Director	March 23, 2018	March 19, 2021
Stuart B. Solomon	July 17, 1949	Non-executive Director	March 24, 2017	March 19, 2021
Myung Hee Choi	February 22, 1952	Non-executive Director	March 23, 2018	March 19, 2021
Kouwhan Jeong	September 30, 1953	Non-executive Director	March 23, 2018	March 19, 2021
Kyung Ho Kim	December 21, 1954	Non-executive Director	March 27, 2019	March 26, 2021
Seon-joo Kwon	November 12, 1956	Non-executive Director	March 20, 2020	March 19, 2022
Gyutaeg Oh	February 20, 1959	Non-executive Director	March 20, 2020	March 19, 2022

⁽¹⁾ The date on which each term will end will be the date of the general stockholders' meeting in the relevant year unless otherwise specified.

Suk Ho Sonu has been a non-executive director since March 2018. He is currently a visiting professor at Hongik University School of Business Administration. He previously served as a visiting professor at Seoul National University Business School, the dean of Hongik University Graduate School of Business Administration, president of the Korea Money and Finance Association and president of the Korea Finance Association. Mr. Sonu received a B.A. in applied mathematics from Seoul National University, an M.B.A. from the Kellogg School of Management of Northwestern University and a Ph.D. in finance from the Wharton School of the University of Pennsylvania.

Stuart B. Solomon has been a non-executive director since March 2017. He previously served as the chairman, president and chief executive officer of MetLife Korea. Mr. Solomon received an undergraduate degree from Syracuse University.

Myung Hee Choi has been a non-executive director since March 2018. She is currently a vice president at the Korea Internal Control Assessment Institute. She previously served as an auditor at the Korea Exchange Bank, a director of the Financial Supervisory Service and senior operations officer of Citibank Korea Inc. Ms. Choi received a B.A. in English from Yonsei University.

Kouwhan Jeong has been a non-executive director since March 2018. He is currently the co-president attorney-at-law of NambuJeil Law and Notary Office Inc. He previously served as the chairperson of the Consumer Dispute Settlement Commission of the Korea Consumer Agency, a standing mediator at Korea Medical Dispute Mediation and Arbitration Agency and the branch chief prosecutor at the Bucheon Branch Office of the Incheon District Prosecutor's Office. Mr. Jeong received a B.A. in law from Seoul National University.

Kyung Ho Kim has been a non-executive director since March 2019. He previously served as a professor at Hongik University School of Business Administration, the vice president of Hongik University, a non-executive director of Shinhan Investment Corp., a non-executive director of Citibank Korea Inc., a vice chairman of the Korea Accounting Institute and president of the Korea Association for Government Accounting. Mr. Kim received a B.A. in business administration from Seoul National University and an M.S. and a Ph.D. in management from Purdue University.

Seon-joo Kwon has been a non-executive director since March 2020. She previously served a number of roles at Industrial Bank of Korea, including the chairman and chief executive officer, the head of the risk management division, the head of the credit card business division and the head of the central regional headquarters. She also previously served as a visiting scholar at the Korea Institute of Finance. Ms. Kwon received a B.A. in English from Yonsei University.

Gyutaeg Oh has been a non-executive director since March 2020. He is currently a professor at Chung-Ang University School of Business Administration. He previously served as a member of the Public Funds Oversight Committee of the Financial Services Commission, an assistant professor at the University of Iowa, a non-executive director at Kiwoom Securities Co., Ltd. and a non-executive director at Moa Savings Bank. Mr. Oh received a B.A. in economics from Seoul National University, an M.S. in management science from the Korea Advanced Institute of Science and Technology and an M.A. and a Ph.D. in economics from Yale University.

Any director having an interest in a transaction that is subject to approval by the board of directors may not vote at the meeting during which the board approves the transaction.

Executive Officers

The table below identifies our executive officers who are not executive directors as of the date of this annual report:

Name	Date of Birth	Position
Chang Kwon Lee . . .	November 15, 1965	Deputy President, Chief Strategy Officer and Head of Global Business Unit
Ki-Hwan Kim	March 20, 1963	Deputy President and Chief Finance Officer
Nam Jong Seo	June 10, 1963	Deputy President and Chief Risk Management Officer
Pil Kyu Im	March 20, 1964	Deputy President and Chief Human Resources Officer
Kyung Yup Cho	September 9, 1961	Deputy President; KB Research
Young Hyuk Jo	April 22, 1963	Deputy President; Audit Department
Nam Hoon Cho	June 28, 1968	Senior Managing Director and Chief Global Strategy Officer
Chan Il Park	March 19, 1963	Managing Director and Chief Compliance Officer
Seok Mun Choi	August 9, 1968	Managing Director and the Head of the Office of Board of Directors
Soon Bum Kwon	October 20, 1966	Managing Director
Jeong Rim Park	November 27, 1963	Head of Capital Market Business Unit
Sung Hyun Kim	August 5, 1963	Head of Corporate and Investment Banking Business Unit
Jong Hee Yang	June 10, 1961	Head of Insurance Business Unit
Dong Cheol Lee	October 4, 1961	Head of Retail Customer Business Unit
Young Gil Kim	January 3, 1963	Head of Wealth Management Business Unit
Woon Tae Kim	May 17, 1963	Head of Small and Medium Enterprise Business Unit
Mun-Cheol Jeong . . .	August 3, 1968	Chief Public Relation Officer
Dong Whan Han	January 30, 1965	Chief Digital Innovation Officer
Woo Yeul Lee	November 21, 1964	Chief Information Technology Officer
Jin Soo Yoon	February 29, 1964	Chief Data Officer
Sang-Hyeon Woo . . .	February 3, 1964	Senior Managing Director; Corporate and Investment Banking Business Unit
Jeong Ha	January 31, 1967	Senior Managing Director; Capital Market Business Unit
Chai Hyun Sung	September 12, 1965	Senior Executive Vice President; Retail Customer Business Unit
Yun Sang Song	July 14, 1964	Senior Managing Director; Insurance Business Unit
Jae Young Choi	June 7, 1967	Head of Pension Business Division
Jin Gyu Maeng	January 15, 1966	Head of Office of Planning and Coordination

None of the executive officers has any significant activities outside KB Financial Group.

Chang Kwon Lee is a deputy president and our chief strategy officer and heads the global business unit. He previously served as a general manager of KB Kookmin Card's strategic planning department. Mr. Lee received a B.A. in applied statistics from Korea University.

Ki-Hwan Kim is a deputy president and our chief finance officer. He previously served as our chief risk management officer and as a managing director of Kookmin Bank's consumer protection group. Mr. Kim received a B.A. in economics from Seoul National University.

Nam Jong Seo is a deputy president and our chief risk management officer. He previously served as a senior executive vice president of Kookmin Bank's risk management group. Mr. Seo received an M.A. in economics from Korea University.

Pil Kyu Im is a deputy president and our chief human resources officer. He previously served as our chief compliance officer and as the branch manager of Kookmin Bank's Gwanghwamoon branch and Star Tower branch. Mr. Im received an M.A. in economics from Korea University.

Kyung Yup Cho is a deputy president and heads KB Research. He previously served as a senior editor at MaeKyung Media Group and the head of financial news, political news, social affairs and international news at Maeil Business Newspaper. Mr. Cho received a B.A. and a Ph.D. in business administration from Yonsei University.

Young Hyuk Jo is a deputy president and heads the audit department. He previously served as the head of Kookmin Bank's Ansan financial center branch. Mr. Jo received a B.A. in economics from Dong-A University.

Nam Hoon Cho is a senior managing director and our chief global strategy officer. He previously served as a managing director of KB Securities' global business division and management supporting division. Mr. Cho received a B.A. in economics from Sungkyunkwan University.

Chan Il Park is a managing director and our chief compliance officer. He previously served as the head of Kookmin Bank's Guro-dong financial center branch and Seoyeouido branch.

Seok Mun Choi is a managing director and the head of the office of board of directors. He previously served as a general manager of Kookmin Bank's general affairs department. Mr. Choi received a B.A. in public administration from Chosun University.

Soon Bum Kwon is a managing director. He previously served as an executive secretary for our company and Kookmin Bank, as well as a general manager of Kookmin Bank's human resources department. Mr. Kwon received a B.A. in science of public administration from Korea University.

Jeong Rim Park is the head of our capital market business unit and also serves as the chief executive officer of KB Securities. She previously served as a senior executive vice president of Kookmin Bank and the head of its wealth management group, as well as a deputy president of KB Securities in charge of its wealth management division. Ms. Park received a B.A. in business administration and an M.B.A. from Seoul National University.

Sung Hyun Kim is the head of our corporate and investment banking business unit and also serves as the chief executive officer of KB Securities. He previously served as a deputy president of the investment banking division of KB Securities. Mr. Kim received a B.A. in economics from Yonsei University.

Jong Hee Yang is the head of our insurance business unit and also serves as the chief executive officer of KB Insurance. He previously served as a deputy president in charge of our finance, human resources and investor relations divisions. Mr. Yang received a B.A. in history from Seoul National University.

Dong Cheol Lee is the head of our retail customer business unit and also serves as the chief executive officer of KB Kookmin Card. He previously served as a deputy president in charge of our strategy planning department. Mr. Lee received a B.A. in law from Korea University.

Young Gil Kim is the head of our wealth management business unit. He also serves as a senior executive vice president of Kookmin Bank's wealth management customer group and as a deputy president of KB Securities' wealth management business unit. He previously served as the head of Kookmin Bank's investment product & service division. Mr. Kim received a B.S. in statistical computation from Chungnam National University.

Woon Tae Kim is the head of our small and medium enterprise business unit. He also serves as a senior managing director of Kookmin Bank's SME & SOHO customer group. He previously served as the head of Daejeon & Chungnam regional sales group of Kookmin Bank. He received a B.A. in agricultural economics from Dongguk University.

Mun-Cheol Jeong is our chief public relation officer. He also serves as a managing director of Kookmin Bank's brand & ESG group. He previously served as the head of Kookmin Bank's strategy division. Mr. Jeong received an M.B.A. from the Korea Advanced Institute of Science and Technology.

Dong Whan Han is our chief digital innovation officer. He also serves as a senior executive vice president of Kookmin Bank's digital financial group. He previously served as the head of our office of the board of directors and a general manager of Kookmin Bank's strategic planning department. Mr. Han received an M.S. in geography from Seoul National University and an M.B.A. from the University of Washington.

Woo Yeul Lee is our chief information technology officer. He also serves as a senior executive vice president of Kookmin Bank's information technology group. He previously served as the head of Kookmin Bank's Bukbu regional sales group. Mr. Lee received an M.A. in economics from Korea University.

Jin Soo Yoon is our chief data officer. He also serves as a senior managing director of the data strategy group at Kookmin Bank and data strategic division at KB Kookmin Card. He previously served as the head of N division of Hyundai Card Co., Ltd. and Hyundai Capital Services, Inc. Mr. Yoon received a B.S. in computer science from Seoul National University and an M.S. and a Ph.D. from the Korea Advanced Institute of Science and Technology.

Sang-Hyeon Woo is a senior managing director and directs our corporate and investment banking business unit. He also serves as a senior managing director of Kookmin Bank's corporate investment banking customer group and as a deputy president of KB Securities' investment banking business unit. He previously served as the head of Kookmin Bank's investment banking business division. Mr. Woo received an M.B.A. from Korea University.

Jeong Ha is a senior managing director and directs our capital market business unit. He also serves as a senior managing director of Kookmin Bank's capital markets group. He previously served as the head of Kookmin Bank's capital markets division. Mr. Ha received an M.B.A. from the Korea Advanced Institute of Science and Technology.

Chai Hyun Sung is a senior executive vice president and directs our retail customer business unit. He also serves as a senior executive vice president of Kookmin Bank and heads its retail customer group. He previously served as our chief human resources officer, as our chief public relation officer and as an executive secretary for our company and Kookmin Bank. Mr. Sung received a B.A. in accounting from Jeonbuk National University.

Yun Sang Song is a senior managing director and directs our insurance business unit. He also serves as a senior managing director of KB Life Insurance and heads its strategy & finance planning division. He previously served as a senior actuary of KB Life Insurance. Mr. Song received an M.S. in mathematics from Seoul National University.

Jae Young Choi is the head of our pension business division. He also serves as the head of the pension business divisions at Kookmin Bank, KB Securities and KB Insurance. He previously served as the head of Kookmin Bank's pension business department. Mr. Choi received an M.B.A. from Yonsei University.

Jin Gyu Maeng is the head of our office of planning and coordination. He also serves as a general manager of Kookmin Bank’s planning and coordination office. He previously served as the head of Kookmin Bank’s Yeouido financial center branch. Mr. Maeng received a B.A. in economics from Dongguk University.

Item 6.B. Compensation

The aggregate remuneration paid and benefits-in-kind granted, excluding stock grants, by us and our subsidiaries to our chairman and chief executive officer, our other executive and non-standing directors, our non-executive directors and our executive officers for the year ended December 31, 2019 was ₩14,468 million. For the year ended December 31, 2019, we set aside ₩642 million for allowances for severance and retirement benefits for our chairman and chief executive officer, the other executive directors and our executive officers.

The compensation of our directors and executive officers who received total annual compensation exceeding ₩500 million in 2019 was as follows:

Name	Position	Total Compensation in 2019 (in millions of Won) ⁽¹⁾	Incentive Compensation for Payment Subsequent to 2019 (number of shares) ⁽²⁾
Jong Kyoo Yoon	Chairman and Chief Executive Officer	₩2,057	26,301
Yin Hur	Non-standing director; President and Chief Executive Officer of Kookmin Bank	1,074	6,345
Dong Cheol Lee	Head of Retail Customer Business Unit	720	5,287
Chang Kwon Lee	Deputy President and Chief Strategy Officer, Head of Global Business Unit	576	3,895
Kyung Yup Cho	Deputy President; KB Research	557	11,770
Young Hyuk Cho	Deputy President; Audit Department	504	3,268

⁽¹⁾ Includes annual salary and performance-based incentive payments paid by us and our subsidiaries.

⁽²⁾ Consists of performance-based shares expected to be granted by us and our subsidiaries in the future. The actual payment amount will be determined at the time of payment based on the then-current market price of our common shares.

We do not have service contracts with any of our directors or executive officers providing for benefits upon termination of their employment with us.

In 2008, we established a stock grant plan. Pursuant to this plan, we have entered into performance share agreements with certain of our and our subsidiaries’ directors and executive officers, whereby we may grant shares of our common stock (or the equivalent monetary amount based on the market value of such shares) within specified periods as long-term incentive performance shares in accordance with pre-determined performance targets. See “Item 6.E. Share Ownership—Performance Share Agreements.” In 2019, we incurred ₩49,418 million of compensation costs relating to stock grants under such agreements. See Note 31.2 of the notes to our consolidated financial statements included elsewhere in this annual report.

Item 6.C. Board Practices

See “Item 6.A. Directors and Senior Management” above for information concerning the terms of office and contractual employment arrangements with our directors and executive officers.

Committees of the Board of Directors

We currently have the following committees that serve under the board:

- the Audit Committee;
- the Risk Management Committee;
- the Evaluation & Compensation Committee;
- the Non-Executive Director Nominating Committee;
- the Audit Committee Member Nominating Committee;
- the CEO Nominating Committee;
- the Subsidiaries' CEO Director Nominating Committee; and
- the Environmental, Social and Governance, or ESG, Committee.

Each committee member is appointed by the board of directors, except for members of the Audit Committee, who are elected at the general meeting of stockholders.

Audit Committee

The committee currently consists of four non-executive directors, Myung Hee Choi, Kouwhan Jeong, Gyutaeg Oh and Kyung Ho Kim. The chairperson of the Audit Committee is Kyung Ho Kim. The committee oversees our financial reporting and approves the appointment of our independent registered public accounting firm. The committee also reviews our financial information, auditor's examinations, key financial statement issues, the plans and evaluation of internal control and the administration of our financial affairs by the board of directors. In connection with the general meetings of stockholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors to each general meeting of stockholders. The committee holds regular meetings every quarter.

Risk Management Committee

The committee currently consists of four non-executive directors, Stuart B. Solomon, Kyung Ho Kim, Seon-joo Kwon and Gyutaeg Oh. The chairperson of the committee is Seon-joo Kwon. The Risk Management Committee oversees and makes determinations on all issues relating to our comprehensive risk management function. In order to ensure our stable financial condition and to maximize our profits, the committee monitors our overall risk exposure and reviews our compliance with risk policies and risk limits. In addition, the committee reviews risk and control strategies and policies, evaluates whether each risk is at an adequate level, establishes or abolishes risk management divisions and reviews risk-based capital allocations. The committee holds regular meetings every quarter.

Evaluation & Compensation Committee

The committee currently consists of four non-executive directors, Suk Ho Sonu, Myung Hee Choi, Kouwhan Jeong and Seon-joo Kwon. The chairperson of the committee is Kouwhan Jeong. The Evaluation and Compensation Committee reviews compensation schemes and compensation levels of us and our subsidiaries. The committee is also responsible for deliberating and deciding the compensation of directors, evaluating management's performance and implementing management training programs, as well as deciding and supervising the performance-based annual salary of the president and the executive officers of us and our subsidiaries. The committee holds regular meetings semi-annually.

Non-executive Director Nominating Committee

The committee currently consists of four non-executive directors, Suk Ho Sonu, Stuart B. Solomon, Myung Hee Choi and Kouwhan Jeong. The chairperson of the committee is Myung Hee Choi. The committee is responsible for the management and evaluation of a pool of non-executive director candidates and recommendation of the non-executive director candidates to be nominated at the annual general meeting of shareholders.

Audit Committee Member Nominating Committee

The committee currently consists of all seven of our non-executive directors. The chairperson of the committee is Suk Ho Sonu. The committee oversees the selection of Audit Committee member candidates and recommends them annually sometime prior to the general stockholders meeting. The term of office of its members is from the first meeting of the committee held to nominate the Audit Committee members until the Audit Committee members are appointed.

CEO Nominating Committee

The committee currently consists of all seven of our non-executive directors. The chairperson of the CEO Nominating Committee is Suk Ho Sonu. The committee is responsible for establishing and monitoring procedures for our CEO candidate cultivation and succession program pursuant to our “CEO Succession Regulations,” which cover, among other things, the qualifications of CEO candidates, continued maintenance of the candidate pool and the CEO candidate nomination process. The committee holds regular meetings semi-annually.

Subsidiaries’ CEO Director Nominating Committee

The committee currently consists of one non-standing director, Yin Hur, and three non-executive directors, Suk Ho Sonu, Kyung Ho Kim and Seon-joo Kwon, together with our chairman and chief executive officer, Jong Kyoo Yoon. The chairperson of the Subsidiaries’ CEO Director Nominating Committee is Jong Kyoo Yoon. The committee is responsible for candidate cultivation and succession programs for chief executive officers of our subsidiaries. The committee holds regular meetings semi-annually.

ESG Committee

The Committee currently consists of all seven of our non-executive directors, one non-standing director, Yin Hur, and our chairman and chief executive officer, Jong Kyoo Yoon. The chairperson of the ESG Committee is Gyutaeg Oh. The committee is responsible for establishing and enforcing strategies and policies relating to non-financial aspects of our business, which consist of the environment, social responsibility and corporate governance, in order to promote sustainable development and enhance our corporate value. The committee also manages ESG-related products and investments and monitors ESG-related global initiatives and community outreach efforts. The committee holds regular meetings semi-annually.

Item 6.D. Employees

As of December 31, 2019, we had a total of 153 full-time employees, excluding 21 executive officers, at our financial holding company.

The following table sets forth information regarding our employees at both our financial holding company and our subsidiaries as of the dates indicated:

		As of December 31,		
		2017	2018	2019
KB Financial Group	Full-time employees ⁽¹⁾	164	170	153
	Contractual employees	—	—	—
	Managerial employees	147	151	135
	Members of Korea Financial Industry Union	—	—	—
Kookmin Bank	Full-time employees ⁽¹⁾	16,925	16,802	16,413
	Contractual employees	1,422	1,309	1,545
	Managerial employees	9,799	9,615	9,276
	Members of Korea Financial Industry Union	14,501	14,697	14,642
Other subsidiaries	Full-time employees ⁽¹⁾	8,231	8,753	8,777
	Contractual employees	1,600	1,290	1,131
	Managerial employees	4,554	4,675	4,840
	Members of Korea Financial Industry Union	6,043	6,005	5,958

⁽¹⁾ Excluding executive officers.

We consider our relations with our employees to be satisfactory. We and our subsidiaries each have a joint labor-management council which serves as a forum for ongoing discussions between our management and employees. At eight of our subsidiaries, Kookmin Bank, KB Securities, KB Insurance, KB Kookmin Card, KB Capital, KB Real Estate Trust, KB Data Systems and KB Credit Information, our employees have a labor union. Every year, the unions at Kookmin Bank, KB Securities, KB Insurance, KB Kookmin Card, KB Capital, KB Real Estate Trust, KB Data Systems and KB Credit Information and their respective managements negotiate and enter into new collective bargaining agreements and negotiate annual wage adjustments.

Our compensation packages consist of base salary and base bonuses. We also provide performance-based compensation to employees and management officers, including those of our subsidiaries, depending on the level of responsibility of the employee or officer and business of the relevant subsidiary. Typically, executive officers, heads of regional headquarters and employees in positions that require professional skills, such as fund managers and dealers, are compensated depending on their individual annual performance evaluation. Also, Kookmin Bank has implemented a profit-sharing system in order to enhance the performance of Kookmin Bank’s employees. Under this system, Kookmin Bank pays bonuses to its employees, in addition to the base salary and depending on Kookmin Bank’s annual performance.

In January 2016, we implemented a “mileage stock” program, pursuant to which we may grant to our and our subsidiaries’ employees performance-based cash payments that correspond to the market value of our common shares. The accumulated “miles” of common shares can be exercised for cash during a two-year period commencing on the one-year anniversary of the grant date.

We provide a wide range of benefits to our employees, including our executive directors. Specific benefits provided may vary for each of our subsidiaries but generally include medical insurance, employment insurance, workers compensation, employee and spouse life insurance, free medical examinations, child tuition and fee reimbursement, disabled child financial assistance and reimbursement for medical expenses, and other benefits may be provided depending on the subsidiary.

In accordance with the National Pension Act, we contribute an amount equal to 4.5% of employee wages, and each employee contributes 4.5% of his or her wages, into each employee’s personal pension account. In addition, in accordance with the Guarantee of Worker’s Retirement Benefits Act, we have adopted a retirement pension plan for our employees. Contributions under the retirement pension plan are deposited annually into a financial institution, and an employee may elect to receive a monthly pension or a lump-sum amount upon

retirement. Our retirement pension plans are provided in the form of a defined benefit plan and a defined contribution plan. The defined benefit plan guarantees a certain payout at retirement, according to a fixed formula based on the employee's average salary and the number of years for which the employee has been a plan member. The defined contribution plan, in which the employer's contribution is determined in advance based on one twelfth of an employee's total annual pay, is managed directly by the employees. Under Korean law, we may not terminate the employment of full-time employees except under certain limited circumstances. However, from time to time, we invite our employees to apply for our early retirement programs, which provide for varying amounts of severance pay based on the duration of time an employee has worked for us, along with several other key features. We believe that such programs enhance our productivity and efficiency by improving our labor structure.

In June 2009, we established an employee stock ownership association. All of our employees are eligible to participate in this association. We are not required to, and do not, make cash contributions to this plan. Members of our employee stock ownership association have pre-emptive rights to acquire up to 20% of our shares issued in public offerings by us pursuant to the Financial Investment Services and Capital Markets Act. In August 2009, we offered to members of our employee stock ownership association 6,000,000 of the 30,000,000 new shares of common stock to be issued in our rights offering to our existing shareholders, and the entire amount was subscribed by members of our employee stock ownership association. The employee stock ownership association held 4,588,656 shares of our common stock as of December 31, 2019.

Employees of Kookmin Bank have been eligible to participate in its employee stock ownership association, which will be terminated once all of our common stock held by the association (which the association received following the transfer of Kookmin Bank shares held by it as a result of the comprehensive stock transfer pursuant to which we were established) have been distributed to the relevant Kookmin Bank employees at the requests of such employees following the expiration of the required holding periods. As of December 31, 2019, such employee stock ownership association held 306,615 shares of our common stock.

In order to develop our next generation of leaders and enhance the operational capability of our employees at each of our subsidiaries, we operate various employee training programs. These programs, which are aimed at cultivating financial specialists with higher levels of management and business skills, developing regional experts for increased global capabilities and enhancing employee loyalty, comprise a number of customized programs such as training courses for employees of different positions, domestic and foreign M.B.A. courses and intensive human resources development programs for high performers to cultivate future leaders. For example, Kookmin Bank offers training programs at its employees' worksites to facilitate access to training, as well as a foreign regional expert training program and a global language training course. We also provide financial and other support for our employees to develop their finance-related knowledge and skills by enrolling in training courses or engaging in self-study programs. The broad spectrum of training programs, combined with the state-of-the-art technologies such as cyber training, satellite broadcasting and mobile-learning, maximizes the level of exposure of the trainees to the contents of the programs. We also believe that our training scheme based on classified training courses and a development evaluation system has facilitated systemic development of employee skills and a spontaneous learning environment.

Item 6.E. Share Ownership

Common Stock

As of March 31, 2020, the persons who are currently our directors or executive officers, as a group, held an aggregate of 78,617 shares of our common stock, representing approximately 0.02% of the issued shares of our common stock as of such date. None of these persons individually held more than 1% of the outstanding shares of our common stock as of such date. The following table presents information regarding our directors and executive officers who beneficially owned our shares as of March 31, 2020:

<u>Name of Executive Officer or Director</u>	<u>Number of Shares of Common Stock</u>
Jong Kyoo Yoon	21,000
Yin Hur	13,500
Suk Ho Sonu	1,300
Chang Kwon Lee	2,010
Ki-Hwan Kim	2,576
Nam Jong Seo	119
Pil Kyu Im	1,005
Kyung Yup Cho	1,500
Young Hyuk Jo	961
Nam Hoon Cho	1,000
Chan Il Park	1,200
Seok Mun Choi	690
Soon Bum Kwon	1,500
Jeong Rim Park	3,150
Sung Hyun Kim	15,468
Jong Hee Yang	914
Dong Cheol Lee	3,325
Young Gil Kim	152
Woon Tae Kim	—
Mun-Cheol Jeong	539
Dong Whan Han	1,100
Woo Yeul Lee	1,248
Jin Soo Yoon	100
Sang-Hyeon Woo	348
Jeong Ha	—
Chai Hyun Sung	2,536
Yun Sang Song	—
Jae Young Choi	652
Jin Gyu Maeng	724
Total	<u>78,617</u>

Performance Share Agreements

Pursuant to a stock grant plan we established in 2008, we have entered into performance share agreements with certain of our and our subsidiaries' directors and executive officers, pursuant to which we may grant shares of our common stock (or the equivalent monetary amount based on the market value of such shares) within specified periods as long-term incentive performance shares in accordance with pre-determined performance targets. Since January 2010, in accordance with the best practice guidelines for outside directors of banking institutions announced by the Korea Federation of Banks, which have been replaced with the Financial Corporate Governance Code issued by the Financial Services Commission in December 2014, we have not entered into any performance share agreements with our non-executive directors.

Actual disbursements under the performance share agreements with our and our subsidiaries' directors and executive officers have generally been in the form of cash disbursements of equivalent monetary amounts based on the market value of our shares.

Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Item 7.A. Major Shareholders

The following table presents information regarding the beneficial ownership of our shares at December 31, 2019 by each person or entity known to us to own beneficially more than 5% of our issued and outstanding shares.

Except as otherwise indicated, each stockholder identified by name has:

- sole voting and investment power with respect to its shares; and
- record and beneficial ownership with respect to its shares.

<u>Beneficial Owner</u>	<u>Number of Shares of Common Stock</u>	<u>Percentage of Total Outstanding Shares of Common Stock (%)⁽¹⁾</u>
Korean National Pension Service	41,468,003	9.97%
JP Morgan Chase Bank, N.A. ⁽²⁾	26,622,633	6.40%

⁽¹⁾ Calculated based on 415,807,920 shares of our common stock issued as of December 31, 2019.

⁽²⁾ As depositary bank.

Other than as set forth above, no other person or entity known by us to be acting in concert, directly or indirectly, jointly or separately, owned 5.0% or more of the issued shares of our common stock or exercised control or could exercise control over us as of December 31, 2019. None of our major stockholders has different voting rights from our other stockholders.

As of December 31, 2019, there were 389,634,335 shares of common stock outstanding. Of the total outstanding shares, 26,622,633 shares were held in the form of ADSs and 96,593,126 shares were held of record in the form of common stock by residents in the United States. As of December 31, 2019, the number of registered holders of our ADSs was 20 and the number of holders of our common stock in the United States was 611.

Item 7.B. Related Party Transactions

As of December 31, 2019, we had an aggregate of ₩3,541 million in loans outstanding to our executive officers and directors, executive officers and directors of Kookmin Bank and chief executive officers of our other subsidiaries, including family members of such individuals. In addition, as of such date, we had loans outstanding to various companies whose directors or executive officers were serving concurrently as our directors or executive officers. See Note 43 of the notes to our consolidated financial statements included elsewhere in this annual report. All of these loans were made in the ordinary course of business, on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectability or present other unfavorable features.

None of our directors or officers have or had any interest in any transactions effected by us that are or were unusual in their nature or conditions or significant to our business which were effected during the current or immediately preceding year or were effected during an earlier year and remain in any respect outstanding or unperformed.

Item 7.C. Interests of Experts and Counsel

Not applicable.

Item 8. FINANCIAL INFORMATION

Item 8.A. Consolidated Statements and Other Financial Information

See “Item 18. Financial Statements” and pages F-1 through F-250.

Legal Proceedings

Excluding the legal proceedings discussed below, we and our subsidiaries are not a party to any legal or administrative proceedings and no proceedings are known by any of us or our subsidiaries to be contemplated by governmental authorities or third parties, which, if adversely determined, may have a material adverse effect on our consolidated financial condition or results of operations.

In June 2010, Fairfield Sentry Limited, or Fairfield, which is currently in liquidation and whose assets were directly or indirectly invested with Bernard L. Madoff Investment Securities LLC, or BLMIS, filed a lawsuit in the Supreme Court of the State of New York against Kookmin Bank, which acted as a trustee bank for its clients who invested in Fairfield. Fairfield seeks recovery of approximately US\$42 million paid to Kookmin Bank by its clients in connection with share redemptions on the ground that such payments were made by mistake, based on inflated values resulting from BLMIS’ fraud. In September 2010, the case was transferred to the United States Bankruptcy Court for the Southern District of New York, or the Bankruptcy Court, which in turn ordered that the case be returned to a state court in September 2011 but then stayed the lawsuit before it was sent to state court. While the case was stayed, the Bankruptcy Court issued an opinion in December 2018 holding that the claims against Kookmin Bank were deficiently pleaded and thus should be dismissed. In July 2019, the Bankruptcy Court issued an order to the effect that the case would proceed in a federal court, instead of returning to a state court. Fairfield has appealed the Bankruptcy Court’s dismissal to the United States District Court for the Southern District of New York, or the District Court. Legal arguments are currently being filed and the District Court is expected to rule on the appeal during 2020. Fairfield has filed similar actions against numerous other fund investors to seek recovery of redemption payments.

In May 2012, the trustee appointed for the liquidation of BLMIS filed a lawsuit against Kookmin Bank in the Bankruptcy Court. The trustee seeks recovery of approximately US\$42 million, the amount of funds that were allegedly redeemed by Kookmin Bank from Fairfield between June 2004 and January 2006. The trustee alleges that Fairfield was a “feeder fund” that invested in BLMIS and that redemptions from such BLMIS feeder fund are avoidable and recoverable under the U.S. Bankruptcy Code and New York law. The Bankruptcy Court issued an order to dismiss the case during the pleading stage of the litigation in March 2017, and the trustee appealed such decision to the United States Court of Appeals for the Second Circuit, or the Second Circuit, which reversed the dismissal and vacated the judgment in February 2019. Kookmin Bank, along with other defendants, filed a motion asking the Second Circuit to reconsider its ruling and, after such motion was denied, filed a petition asking the United States Supreme Court to accept an appeal of the Second Circuit’s ruling, which petition is currently pending. The trustee has filed similar claw back actions against numerous other institutions.

In November 2012, Kookmin Bank filed a lawsuit against the Export-Import Bank of Korea and other creditor financial institutions comprising the creditors’ committee of a Korean shipbuilding company which was a borrower of Kookmin Bank and was in workout. Kookmin Bank voted against extending new credit to such borrower and exercised its appraisal rights. Kookmin Bank sought ₩103 billion as compensation for damages and payment of the purchase price of debt held by Kookmin Bank. In November 2012, the Export-Import Bank of Korea and other creditor financial institutions of the borrower filed a counter lawsuit against Kookmin Bank seeking ₩46 billion in damages in connection with the borrower’s debt restructuring plan. In August 2014, the Seoul Central District Court ruled partially in favor of Kookmin Bank in its lawsuit against the Export-Import Bank of Korea and other creditor financial institutions of the borrower, but ruled against Kookmin Bank in the counter lawsuit brought against Kookmin Bank. Both cases were appealed to the Seoul High Court, which dismissed the appeals in February 2016. Both cases were further appealed to the Supreme Court of Korea, which dismissed the appeals in February 2019.

In February 2014, the Financial Services Commission suspended the new credit card issuance and other related activities of KB Kookmin Card for three months from February to May 2014, in response to an incident involving the misappropriation of the personal information of a large number of its customers by an employee of the Korea Credit Bureau in the first half of 2013. Specifically, during such suspension period, KB Kookmin Card was prohibited from engaging in the following activities:

- adding new subscribers for credit cards, prepaid cards and debit cards or issuing such types of cards (except as permitted by the chairman of the Financial Services Commission for public policy purposes);
- providing new or additional credit lines to credit card customers; and
- providing new services through mail order or telemarketing channels or related to travel or insurance products.

In connection with the misappropriation incident, as of December 31, 2019, certain of KB Kookmin Card's customers had filed a total of 11 lawsuits against KB Kookmin Card (compared to 113 lawsuits as of December 31, 2018) with the aggregate amount of claimed damages amounting to approximately ₩0.4 billion (compared to approximately ₩6.9 billion as of December 31, 2018). The final outcome of such lawsuits remains uncertain. In addition, KB Kookmin Card could become subject to additional litigation and may incur significant costs relating to the compensation of customers for losses incurred as a result of the fraudulent use of the misappropriated personal information.

In February 2018, pursuant to a request by the Financial Supervisory Service, the Supreme Prosecutors' Office of Korea commenced an investigation into alleged irregularities in hiring practices at certain Korean banks, including Kookmin Bank. In May 2018, the prosecutors charged four current and former executive officers and employees of Kookmin Bank with obstruction of business and violation of the Act on the Equal Employment for Both Sexes, for violating certain regulations relating to the evaluation and hiring of certain individuals in 2015 and 2016. In October 2018, the Seoul Southern District Court sentenced such executive officers and employees to probation and ordered Kookmin Bank to pay a fine in the amount of ₩5 million. The individuals and Kookmin Bank have since appealed such ruling.

In May 2008, Kookmin Bank, in its capacity as a trustee for, and pursuant to instructions from, an asset management company, facilitated the investment of ₩53.9 billion (in the form of a loan) by a real estate fund managed by such asset management company to a real estate developer in Cambodia. Upon the failure of such real estate developer to repay such loan in 2012, Kookmin Bank obtained four orders of provisional attachment from 2014 to 2017 with respect to properties in Cambodia owned by the real estate developer, in accordance with instructions from the asset management company. The property that had been subject to the first provisional attachment was changed in February 2014, and the second to fourth provisional attachments were canceled in February 2017. Subsequently, the real estate developer filed two lawsuits against Kookmin Bank in Cambodian courts for damages in the amount of US\$12.1 million and US\$44.4 million, respectively, on the ground that the provisional attachments were excessive. The real estate developer has since withdrawn both lawsuits upon receipt of a partial payment from Kookmin Bank, the amount of which is considered immaterial.

Dividends

Dividends must be approved by the stockholders at the annual general meeting of stockholders. Cash dividends may be paid out of retained earnings that have not been appropriated to statutory reserves. See "Item 10.B. Memorandum and Articles of Association—Description of Capital Stock—Dividends and Other Distributions."

The table below sets forth, for the periods indicated, the dividend per share of common stock and the total amount of dividends declared and paid by us in respect of the years ended December 31, 2017, 2018 and 2019. The dividends set out for each of the years below were paid within 30 days after our annual stockholders meeting, which was held no later than March of the following year.

Fiscal Year	Dividends per Common Share ⁽¹⁾		Dividends per Preferred Share		Total Amount of Cash Dividends Paid
					(in millions of Won)
2017 ⁽²⁾	₩1,920	US\$1.80	—	—	₩766,728
2018 ⁽³⁾	1,920	1.73	—	—	759,736
2019 ⁽⁴⁾	2,210	1.91	—	—	861,092

(1) Won amounts are expressed in U.S. dollars at the noon buying rate in effect at the end of the relevant periods as quoted by the Federal Reserve Bank of New York in the United States.

(2) On February 8, 2018, our board of directors passed a board resolution recommending a cash dividend of ₩1,920 per common share (before dividend tax), representing 38.4% of the par value of each share, for the fiscal year ended December 31, 2017. This resolution was approved and ratified by our stockholders on March 23, 2018.

(3) On February 8, 2019, our board of directors passed a board resolution recommending a cash dividend of ₩1,920 per common share (before dividend tax), representing 38.4% of the par value of each share, for the fiscal year ended December 31, 2018. This resolution was approved and ratified by our stockholders on March 27, 2019.

(4) On February 6, 2020, our board of directors passed a board resolution recommending a cash dividend of ₩2,210 per common share (before dividend tax), representing 44.2% of the par value of each share, for the fiscal year ended December 31, 2019. This resolution was approved and ratified by our stockholders on March 20, 2020.

Future dividends will depend upon our revenues, cash flow, financial condition and other factors. As an owner of ADSs, you will be entitled to receive dividends payable in respect of the shares of common stock represented by such ADSs.

For a description of the tax consequences of dividends paid to our stockholders, see “Item 10.E. Taxation—United States Taxation” and “—Korean Taxation—Taxation of Dividends on Common Shares or ADSs.”

Item 8.B. Significant Changes

Except as disclosed elsewhere in this annual report, there have been no significant changes since the date of our audited financial statements included in this annual report.

Item 9. THE OFFER AND LISTING

Item 9.A. Offering and Listing Details

Principal Trading Market

The principal trading market for our common stock is the KRX KOSPI Market. Our common stock has been listed on the KRX KOSPI Market since October 10, 2008 under the identifying code 105560, and the ADSs have been listed on the New York Stock Exchange under the symbol “KB” since September 29, 2008. The ADSs are identified by the CUSIP number 48241A105.

Restrictions Applicable to ADSs

No Korean governmental approval is necessary for the sale and purchase of our ADSs in the secondary market outside Korea or for the withdrawal of shares of our common stock underlying the ADSs and the delivery inside Korea of shares in connection with the withdrawal, provided that a foreigner who intends to acquire the shares must obtain an investment registration card from the Financial Supervisory Service as described below. The acquisition of the shares by a foreigner must be immediately reported to the governor of the Financial Supervisory Service, either by the foreigner or by his standing proxy in Korea.

Persons who have acquired shares of our common stock as a result of the withdrawal of shares underlying our ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further Korean governmental approval.

Under current Korean laws and regulations, the depository is required to obtain our prior consent for the number of shares of our common stock to be deposited in any given proposed deposit that exceeds the difference between:

- (1) the aggregate number of shares of our common stock deposited by us for the issuance of our ADSs (including deposits in connection with the initial issuance and all subsequent offerings of our ADSs and stock dividends or other distributions related to these ADSs); and
- (2) the number of shares of our common stock on deposit with the depository at the time of such proposed deposit.

We have agreed to grant such consent to the extent that the total number of shares on deposit with the depository would not exceed 116,583,985 at any time.

Restrictions Applicable to Shares

As a result of amendments to the Foreign Exchange Transaction Act of Korea, the regulations thereunder and Financial Services Commission regulations (which we refer to collectively as the “Investment Rules”), foreigners may invest, with limited exceptions and subject to procedural requirements, in all shares of Korean companies, whether listed on the KRX KOSPI Market or on the KRX KOSDAQ Market, unless prohibited by specific laws. Foreign investors may trade shares listed on the KRX KOSPI Market or on the KRX KOSDAQ Market only through the KRX KOSPI Market or the KRX KOSDAQ Market, except in limited circumstances, including:

- odd-lot trading of shares;
- acquisition of shares (which we refer to as “Converted Shares”) by exercise of warrants, conversion rights or exchange rights under bonds with warrants, convertible bonds or exchangeable bonds or withdrawal rights under depository receipts issued outside of Korea by a Korean company;
- acquisition of shares as a result of inheritance, donation, bequest or exercise of stockholders’ rights, including preemptive rights or rights to participate in free distributions and receive dividends;
- over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners has been reached or exceeded subject to certain exceptions; and
- sale and purchase of shares at fair value between foreigners who are part of an investor group comprised of foreign companies investing under the control of a common investment manager pursuant to applicable laws or contract.

The Investment Rules require a foreign investor who wishes to invest in shares on the KRX KOSPI Market or the KRX KOSDAQ Market (including Converted Shares) to register its identity with the Financial Supervisory Service prior to making any such investment. The registration requirement does not, however, apply to foreign investors who acquire Converted Shares with the intention of selling such Converted Shares within three months from the date of acquisition. Upon registration, the Financial Supervisory Service will issue to the foreign investor an investment registration card, which must be presented each time the foreign investor opens a brokerage account with a financial investment company with a brokerage license. Foreigners eligible to obtain an investment registration card include foreign nationals who have not been residing in Korea for a consecutive period of six months or more, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by the Enforcement Decree of the Financial Investment Services and Capital Markets Act. All Korean offices of a foreign corporation as a group are treated

as a separate foreigner from the offices of the corporation outside Korea for the purpose of investment registration. However, a foreign corporation or depository issuing depository receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor's purchase of shares through the KRX KOSPI Market or the KRX KOSDAQ Market, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor's acquisition or sale of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market (as discussed above) must be reported by the foreign investor or his standing proxy to the governor of the Financial Supervisory Service at the time of each such acquisition or sale. In particular, if a foreign investor acquires or sells his shares in connection with a tender offer or odd-lot trading of shares, such foreign investor or his standing proxy must ensure that the financial investment company that was engaged to facilitate the transaction reports such transaction to the governor of the Financial Supervisory Service. A foreign investor may appoint a standing proxy from among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing and/or brokerage license (including domestic branches of foreign financial investment companies with such license), financial investment companies with a collective investment license (including domestic branches of foreign financial investment companies with such license) and internationally recognized custodians which will act as a standing proxy to exercise stockholders' rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. Generally, a foreign investor may not permit any person, other than its standing proxy, to exercise rights relating to his shares or perform any tasks related thereto on his behalf. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the governor of the Financial Supervisory Service in cases deemed inevitable, including by reason of conflict between laws of Korea and the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in the custody of an eligible custodian in Korea. The same entities eligible to act as a standing proxy are eligible to act as a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that its custodian deposits its shares with the Korea Securities Depository. A foreign investor may be exempted from complying with this deposit requirement with the approval of the governor of the Financial Supervisory Service in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the foreign investors' home country.

An investment by a foreign investor in 10% or more of the issued and outstanding shares with voting rights of a Korean company is defined as a foreign direct investment under the Foreign Investment Promotion Act of Korea. Generally, a foreign direct investment must be reported to the Ministry of Trade, Industry and Energy of Korea. The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign or other shareholding restrictions in the event that the restrictions are prescribed in a specific law that regulates the business of the Korean company. For a description of such restrictions applicable to Korean banks and bank holding companies (such as us), see "Item 4.B. Business Overview—Supervision and Regulation."

Item 9.B. *Plan of Distribution*

Not applicable.

Item 9.C. *Markets*

See "Item 9.A. Offering and Listing Details."

Item 9.D. *Selling Shareholders*

Not applicable.

Item 9.E. Dilution

Not applicable.

Item 9.F. Expenses of the Issue

Not applicable.

Item 10. ADDITIONAL INFORMATION

Item 10.A. Share Capital

Not applicable.

Item 10.B. Memorandum and Articles of Association

Description of Capital Stock

Set forth below is information relating to our capital stock, including brief summaries of certain provisions of our articles of incorporation, the Korean Commercial Code, Financial Investment Services and Capital Markets Act and certain related laws of Korea, all as currently in effect. The following summaries do not purport to be complete and are subject to the articles of incorporation and the applicable provisions of the Financial Investment Services and Capital Markets Act, the Korean Commercial Code, and certain other related laws of Korea.

As of December 31, 2019, our authorized share capital is 1,000,000,000 shares. Pursuant to our articles of incorporation, we are authorized to issue shares with preferred dividend, non-voting shares, class shares with conversion rights, class shares with redemption rights and shares with a combination of all or any of the foregoing characteristics (which we refer to collectively as “Class Shares”), as well as common shares. Subject to applicable laws and regulations, we are authorized to issue Class Shares up to one-half of all of our issued and outstanding shares.

Under our articles of incorporation, dividends on non-voting shares with preferred dividend are required to be at least 1% per annum of the par value and the board of directors must determine at the time of issuance of such shares the dividend rate, type of distributable properties, method of determining the value of distributable properties and conditions on payment of dividends. Also, we may, pursuant to a resolution of the board of directors, issue such non-voting shares with preferred dividend as redeemable shares that may be redeemed with profits at the relevant shareholder’s or our discretion, up to one-half of all of our issued and outstanding shares.

In addition, pursuant to a resolution of the board of directors, we may issue shares that are convertible into common shares or Class Shares at the request of the relevant shareholders, up to 20% of all of our issued and outstanding shares. The period during which a relevant shareholder may make a request for conversion may be determined by a resolution of the board of directors and must be a period between one and ten years from the issue date.

Furthermore, through an amendment of the articles of incorporation, we may create new classes of shares, which may be common shares or Class Shares having additional features as prescribed under the Korean Commercial Code. See “—Voting Rights.”

As of the date of this annual report, 415,807,920 shares of common stock were issued and 389,634,335 shares of common stock were outstanding. No Class Shares are currently outstanding. All of the issued and outstanding shares are fully-paid and non-assessable, and are in registered form. Our authorized but unissued share capital consists of 584,192,080 shares. We may issue the unissued shares without further stockholder approval, subject to a board resolution as provided in the articles of incorporation. See “—Preemptive Rights and Issuances of Additional Shares” and “—Dividends and Other Distributions—Distribution of Free Shares.”

Our articles of incorporation provide that our stockholders may, by special resolution, grant to our and our subsidiaries' officers and employees stock options exercisable for up to 15% of the total number of our issued and outstanding shares. Our board of directors may also grant stock options to officers and employees other than directors exercisable for up to 1% of our issued and outstanding shares, provided that such grant must be approved by a resolution of the subsequent general meeting of stockholders. As of March 31, 2020, none of our officers, directors and employees held options to purchase shares of our common stock.

Share certificates are issued in denominations of one, five, ten, 50, 100, 500, 1,000 and 10,000 shares.

Organization and Register

We are a financial holding company established under the Financial Holding Company Act. We are registered with the commercial registry office of Seoul Central District Court.

Dividends and Other Distributions

Dividends

Dividends are distributed to stockholders in proportion to the number of shares of the relevant class of capital stock owned by each stockholder following approval by the stockholders at an annual general meeting of stockholders. Subject to the requirements of the Korean Commercial Code and other applicable laws and regulations, we expect to pay full annual dividends on newly issued shares for the year in which the new shares are issued.

We declare our dividend annually at the annual general meeting of stockholders, which are held within three months after the end of each fiscal year. Once declared, the annual dividend must be paid to the stockholders of record as of the end of the preceding fiscal year within one month after the annual general meeting unless otherwise resolved thereby. Annual dividends may be distributed either in cash or in shares provided that shares must be distributed at par value and, if the market price of the shares is less than their par value, dividends in shares may not exceed one-half of the total annual dividend (including dividends in shares).

Under the Korean Commercial Code and our articles of incorporation, we do not have an obligation to pay any annual dividend unclaimed for five years from the payment date.

The Financial Holding Company Act and related regulations require that each time a Korean financial holding company pays an annual dividend, it must set aside in its legal reserve to stated capital an amount equal to at least one-tenth of its net income after tax until the amount set aside reaches at least the aggregate amount of its stated capital. Unless it sets aside this amount, a Korean financial holding company may not pay an annual dividend. We intend to set aside allowances for loan losses and reserves for severance pay in addition to this legal reserve.

For information regarding Korean taxes on dividends, see "Item 10.E. Taxation—Korean Taxation."

Distribution of Free Shares

In addition to permitting dividends in the form of shares to be paid out of retained or current earnings, the Korean Commercial Code permits a company to distribute to its stockholders, in the form of free shares, an amount transferred from the capital surplus or legal reserve to stated capital. These free shares must be distributed pro rata to all stockholders. Our articles of incorporation provide that the types of shares to be distributed to the holders of non-voting shares with preferred dividend will be the same type of non-voting shares with preferred dividend held by such holders.

Preemptive Rights and Issuances of Additional Shares

Unless otherwise provided in the Korean Commercial Code, a company may issue authorized but unissued shares at such times and upon such terms as the board of directors of the company may determine. The company must offer the new shares on uniform terms to all stockholders who have preemptive rights and who are listed on the stockholders' register as of the applicable record date. Our stockholders will be entitled to subscribe for any newly issued shares in proportion to their existing shareholdings. However, as provided in our articles of incorporation, new shares may be issued to persons other than existing stockholders if such shares are:

(1) publicly offered pursuant to the Financial Investment Services and Capital Markets Act, (2) issued to an employee stock ownership association, (3) issued upon exercise of stock options pursuant to the Financial Investment Services and Capital Markets Act, (4) issued for the issuance of our depositary receipts, (5) issued to certain foreign or domestic financial institutions or institutional investors to raise funds to meet urgent needs for our management or operations or (6) issued primarily to a third party who has contributed to the management of our business, including by providing financing, credit, advanced financing technique, know-how or entering into close business alliances, except that, in the case of issuances of new shares under (1), (4), (5) and (6) above, the number of new shares issued to persons other than existing stockholders may not exceed 50% of our total issued and outstanding capital stock.

Public notice of the preemptive rights to new shares and the transferability thereof must be given not less than two weeks (excluding the period during which the stockholders' register is closed) prior to the record date. We will notify the stockholders or persons other than existing stockholders, who are entitled to subscribe for newly issued shares of the deadline for subscription at least two weeks prior to the deadline. If such stockholders or persons fail to subscribe on or before such deadline, their preemptive rights will lapse. Our board of directors may determine how to distribute shares in respect of which preemptive rights have not been exercised or where fractions of shares occur.

Under the Financial Investment Services and Capital Markets Act, members of a company's employee stock ownership association, whether or not they are stockholders, will have a preemptive right, subject to certain exceptions, to subscribe for up to 20% of the shares publicly offered pursuant to the Financial Investment Services and Capital Markets Act. This right is exercisable only to the extent that the total number of shares so acquired and held by such members does not exceed 20% of the total number of shares then issued and outstanding.

Voting Rights

Each outstanding share of our common stock is entitled to one vote per share. However, voting rights with respect to shares of common stock that we hold or any of our subsidiaries holds may not be exercised. Unless stated otherwise in a company's articles of incorporation, the Korean Commercial Code permits holders of an aggregate of 1% or more of the issued and outstanding shares with voting rights to request cumulative voting when electing two or more directors. Our articles of incorporation do not prohibit cumulative voting. The Korean Commercial Code and our articles of incorporation provide that an ordinary resolution may be adopted if approval is obtained from the holders of at least a majority of those shares of common stock present or represented at such meeting and such majority also represents at least one-fourth of the total of our issued and outstanding voting shares. Holders of non-voting shares (other than enfranchised non-voting shares) will not be entitled to vote on any resolution or to receive notice of any general meeting of stockholders unless the agenda of the meeting includes consideration of a resolution on which such holders are entitled to vote. The Korean Commercial Code provides that a company's articles of incorporation may prescribe conditions for the enfranchisement of non-voting shares. For example, if our annual general stockholders' meeting resolves not to pay to holders of non-voting shares with preferred dividend the annual dividend as determined by the board of directors at the time of issuance of such shares, the holders of non-voting shares with preferred dividend will be entitled to exercise voting rights from the general stockholders' meeting following the meeting adopting such resolution to the end of a meeting to declare to pay such dividend with respect to the non-voting shares with

preferred dividend. Holders of such enfranchised non-voting shares with preferred dividend will have the same rights as holders of common stock to request, receive notice of, attend and vote at a general meeting of stockholders.

The Korean Commercial Code provides that to amend the articles of incorporation, which is also required for any change to the authorized share capital of the company, and in certain other instances, including removal of a director of a company, dissolution, merger or consolidation of a company, transfer of the whole or a significant part of the business of a company, acquisition of all of the business of any other company, acquisition of a part of the business of any other company having a material effect on the business of the company or issuance of new shares at a price lower than their par value, a special resolution must be adopted by the approval of the holders of at least two-thirds of those shares present or represented at such meeting and such special majority also represents at least one-third of the total issued and outstanding shares with voting rights of the company.

In addition, in the case of amendments to the articles of incorporation or any merger or consolidation of a company or in certain other cases, where the rights or interest of the holders of Class Shares are adversely affected, a resolution must be adopted by a separate meeting of holders of Class Shares. Such a resolution may be adopted if the approval is obtained from stockholders of at least two-thirds of the Class Shares present or represented at such meeting and such shares also represent at least one-third of the total issued and outstanding Class Shares of the company.

A stockholder may exercise his voting rights by proxy given to another stockholder. The proxy must present the power of attorney prior to the start of a meeting of stockholders.

Liquidation Rights

In the event we are liquidated, the assets remaining after the payment of all debts, liquidation expenses and taxes will first be distributed to holders of Class Shares which have a preference right in respect of the distribution of residual properties as determined by our board of directors at the time of their issuance, and the residue thereafter will be distributed to the other stockholders in proportion to the number of shares held by them.

General Meetings of Stockholders

There are two types of general meetings of stockholders: annual general meetings and extraordinary general meetings. We are required to convene our annual general meeting within three months after the end of each fiscal year. Subject to a board resolution or court approval, an extraordinary general meeting of stockholders may be held when necessary or at the request of the holders of an aggregate of 3% or more of our issued and outstanding shares, or the holders of an aggregate of 0.75% or more of our issued and outstanding stock with voting rights, who have held those shares at least for six months, under the Act on the Corporate Governance of Financial Companies and its sub-regulations. Under the Korean Commercial Code, an extraordinary general meeting of stockholders may also be convened at the request of our Audit Committee, subject to a board resolution or court approval. Holders of non-voting shares may be entitled to request a general meeting of stockholders only to the extent the non-voting shares have become enfranchised as described under the section entitled “—Voting Rights” above, hereinafter referred to as “enfranchised non-voting shares.” Meeting agendas will be determined by the board of directors or proposed by holders of an aggregate of 3% or more of the issued and outstanding shares with voting rights, or by holders of an aggregate of 0.1% or more of our issued and outstanding shares with voting rights, who have held those shares for at least six months, by way of a written proposal to the board of directors at least six weeks prior to the meeting, under the Act on the Corporate Governance of Financial Companies and its sub-regulations. Written notices or e-mail notices stating the date, place and agenda of the meeting must be given to the stockholders at least two weeks prior to the date of the general meeting of stockholders. Notice may, however, be given to holders of 1% or less of the total number of issued and outstanding shares which are entitled to vote, either by placing at least two public notices at least two weeks in

advance of the meeting in at least two daily newspapers or by placing a notice through the electronic disclosure system operated by the Financial Supervisory Service or the Korea Exchange. Stockholders who are not on the stockholders' register as of the record date will not be entitled to receive notice of the general meeting of stockholders, and they will not be entitled to attend or vote at such meeting. Holders of enfranchised non-voting shares who are on the stockholders' register as of the record date will be entitled to receive notice of the general meeting of stockholders and they will be entitled to attend and vote at such meeting. Otherwise, holders of non-voting shares will not be entitled to receive notice of or vote at general meetings of stockholders.

The general meeting of stockholders will be held at our head office, which is our registered head office, or, if necessary, may be held anywhere in the vicinity of our head office.

Rights of Dissenting Stockholders

Pursuant to the Financial Investment Services and Capital Markets Act and the Act on the Improvement of the Structure of the Financial Industry, in certain limited circumstances (including, without limitation, if we transfer all or any significant part of our business, if we acquire a part of the business of any other company and such acquisition has a material effect on our business or if we merge or consolidate with another company), dissenting holders of shares of our common stock and our stock with preferred dividends will have the right to require us to purchase their shares. To exercise such a right, stockholders must submit to us a written notice of their intention to dissent prior to the general meeting of stockholders. Within 20 days (10 days in the case of a stock transfer or exchange for the purposes of establishing a financial holding company or acquiring all issued shares of an existing subsidiary under the Financial Holding Company Act) after the date on which the relevant resolution is passed at such meeting, such dissenting stockholders must request in writing that we purchase their shares. We are obligated to purchase the shares from dissenting stockholders within one month after the end of such request period at a price to be determined by negotiation between the stockholder and us. If we cannot agree on a price with the stockholder through such negotiations, the purchase price will be the arithmetic mean of:

- the weighted average of the closing stock prices on the KRX KOSPI Market for the two-month period prior to the date of the adoption of the relevant board of directors' resolution;
- the weighted average of the closing stock prices on the KRX KOSPI Market for the one-month period prior to the date of the adoption of the relevant board of directors' resolution; and
- the weighted average of the closing stock prices on the KRX KOSPI Market for the one-week period prior to the date of the adoption of the relevant board of directors' resolution.

However, any dissenting stockholder who wishes to contest the purchase price may bring a claim in court.

Required Disclosure of Ownership

Any person whose direct or beneficial ownership of our common stock with voting rights, whether in the form of shares of common stock or ADSs, certificates representing the rights to subscribe for shares or equity-related debt securities including convertible bonds and bonds with warrants (which we refer to collectively as "Equity Securities"), together with the Equity Securities beneficially owned by certain related persons or by any person acting in concert with the person, accounts for 5% or more of the total issued and outstanding shares (Equity Securities of us held by such persons and treasury stock) is required to report the status and purpose (in terms of whether the purpose of the shareholding is to exercise control over our management) of the holdings to the Financial Services Commission and the KRX KOSPI Market within five business days after reaching the 5% ownership interest. In addition, any change in (i) the ownership interest subsequent to the report that equals or exceeds 1% of the total issued and outstanding Equity Securities of us or (ii) the purpose of the shareholding is required to be reported to the Financial Services Commission and the KRX KOSPI Market within five business days from the date of the change.

Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment, an administrative fine of up to 0.001% of the aggregate market value of the total issued and outstanding stock or ₩500 million, whichever is lower, and/or a loss of voting rights with respect to the ownership of Equity Securities exceeding 5% of the total issued and outstanding Equity Securities with respect to which the reporting requirements were violated. Furthermore, the Financial Services Commission may order the disposal of the unreported Equity Securities.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of our stock accounts for 10% or more of the total issued and outstanding stock (which we refer to as a “major stockholder”) must report the status of his/her shareholding to the Korea Securities and Futures Commission and the KRX KOSPI Market within five days after becoming a major stockholder. In addition, any change in the ownership interest subsequent to the report must be reported to the Korea Securities and Futures Commission and the KRX KOSPI Market within five days of the occurrence of the change, provided that such reporting obligation would not apply if the change in the ownership interest consists of less than 1,000 shares and the amount of such change is less than ₩10 million. Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment.

Other Provisions

Register of Stockholders and Record Dates

We maintain the register of our stockholders at our principal office in Seoul, Korea. We register transfers of shares on the register of stockholders upon presentation of the share certificates.

The record date for annual dividends is December 31. For the purpose of determining the holders of shares entitled to annual dividends, the register of stockholders will be closed for the period beginning from January 1 and ending on January 31. Further, the Korean Commercial Code and our articles of incorporation permit us upon at least two weeks’ public notice to set a record date and/or close the register of stockholders for not more than three months for the purpose of determining the stockholders entitled to certain rights pertaining to the shares. However, in the event that the register of stockholders is closed for the period beginning from January 1 and ending on January 31 for the purpose of determining the holders of shares entitled to attend the annual general meeting of stockholders, the Korean Commercial Code and our articles of incorporation waive the requirement to provide at least two weeks’ public notice. The trading of shares and the delivery of certificates in respect thereof may continue while the register of stockholders is closed. Also, we may distribute dividends to stockholders on a quarterly basis, and the record dates for these quarterly dividends are the end of March, June and September of each year.

Annual Reports

At least one week before the annual general meeting of stockholders, we must make our management report to shareholders and audited financial statements available for inspection at our head office and at all of our branch offices. Copies of this report, the audited financial statements and any resolutions adopted at the general meeting of stockholders are available to our stockholders.

Under the Financial Investment Services and Capital Markets Act, we must file with the Financial Services Commission and the KRX KOSPI Market an annual business report within 90 days after the end of each fiscal year, a half-year business report within 45 days after the end of the first six months of each fiscal year and quarterly business reports within 45 days after the end of the first three months and nine months of each fiscal year, respectively. Copies of such business reports will be available for public inspection at the Financial Services Commission and the KRX KOSPI Market.

Transfer of Shares

Under the Korean Commercial Code, the transfer of shares is effected by the delivery of share certificates. The Financial Investment Services and Capital Markets Act provides, however, that in case of a company listed on the KRX KOSPI Market such as us, share transfers can be effected by the book-entry method. In order to assert stockholders' rights against us, the transferee must have his name and address registered on the register of stockholders. For this purpose, stockholders are required to file with us their name, address and seal. Non-resident stockholders must notify us of the name of their proxy in Korea to which our notice can be sent.

Under current Korean regulations, the following entities may act as agents and provide related services for foreign stockholders:

- the Korea Securities Depository;
- internationally recognized foreign custodians;
- financial investment companies with a dealing license (including domestic branches of foreign financial investment companies with such license);
- financial investment companies with a brokerage license (including domestic branches of foreign financial investment companies with such license);
- foreign exchange banks (including domestic branches of foreign banks); and
- financial investment companies with a collective investment license (including domestic branches of foreign financial investment companies with such license).

In addition, foreign stockholders may appoint a standing proxy among the foregoing and generally may not allow any person other than the standing proxy to exercise rights to the acquired shares or perform any tasks related thereto on their behalf. Certain foreign exchange controls and securities regulations apply to the transfer of shares by non-residents or non-Koreans. See "Item 9.A. Offering and Listing Details" and "Item 10.D. Exchange Controls." Except as provided in the Financial Holding Company Act, the ceiling on the aggregate shareholdings of a single stockholder and persons who stand in a special relationship with such stockholder is 10% of our issued and outstanding voting shares. See "Item 4.B. Business Overview—Supervision and Regulation—Principal Regulations Applicable to Financial Holding Companies—Restrictions on Ownership of a Financial Holding Company."

Acquisition of Our Shares

Under the Korean Commercial Code, we may acquire our own shares upon a resolution of a general meeting of shareholders by either (i) purchasing them on a stock exchange or (ii) purchasing a number of shares, other than redeemable shares as set forth in Article 345, Paragraph (1) of the Korean Commercial Code, from each shareholder in proportion to their existing shareholding ratio through the methods set forth in the Presidential Decree, provided that the total purchase price does not exceed the amount of our profit that may be distributed as dividends in respect of the immediately preceding fiscal year.

Additionally, pursuant to the Financial Investment Services and Capital Markets Act and regulations under the Financial Holding Company Act and after submission of certain reports to the Financial Services Commission, we may purchase our own shares on the KRX KOSPI Market or through a tender offer, subject to the restrictions that:

- the aggregate purchase price of such shares may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal year; and
- the purchase of such shares shall meet the risk-weighted capital adequacy ratio requirements prescribed in the regulations under the Financial Holding Company Act based on Bank for International Settlements standards.

Subject to certain limited exceptions, our subsidiaries will not be permitted to acquire our shares pursuant to the Financial Holding Company Act.

Item 10.C. *Material Contracts*

None.

Item 10.D. *Exchange Controls*

General

The Foreign Exchange Transaction Act of Korea and the Enforcement Decree and regulations under that Act and Decree, which we refer to collectively as the “Foreign Exchange Transaction Laws,” regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. Non-residents may invest in Korean securities pursuant to the Foreign Exchange Transaction Laws. The Financial Services Commission has also adopted, pursuant to its authority under the Financial Investment Services and Capital Markets Act, regulations that restrict investment by foreigners in Korean securities and regulate issuance of securities outside Korea by Korean companies.

Under the Foreign Exchange Transaction Laws, (1) if the Korean government deems that it is inevitable due to the outbreak of natural calamities, wars, conflict of arms or grave and sudden changes in domestic or foreign economic circumstances or other situations equivalent thereto, the Ministry of Economy and Finance may temporarily suspend payment, receipt or the whole or part of transactions to which the Foreign Exchange Transaction Laws apply, or impose an obligation to safe-keep, deposit or sell means of payment in or to certain Korean governmental agencies or financial institutions; and (2) if the Korean government deems that international balance of payments and international finance are confronted or are likely to be confronted with serious difficulty or the movement of capital between Korea and abroad brings or is likely to bring about serious obstacles in carrying out its currency policies, exchange rate policies and other macroeconomic policies, the Ministry of Economy and Finance may take measures to require any person who intends to perform capital transactions to obtain permission or to require any person who performs capital transactions to deposit part of the payments received in such transactions at certain Korean governmental agencies or financial institutions, in each case subject to certain limitations.

Restrictions Applicable to Shares

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened at a financial investment company with a dealing and/or brokerage license. Funds in the foreign currency account may be remitted abroad without any Korean governmental approval.

Dividends on shares of Korean companies are paid in Won. No Korean governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Won account with the investor’s financial investment company with a dealing and/or brokerage license or in his Won account. Funds in the investor’s Won account may be transferred to his foreign currency account or withdrawn for local living expenses up to certain limitations. Funds in the Won account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

Financial investment companies with dealing and/or brokerage licenses are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors' stock investments in Korea. Through these accounts, such financial investment companies may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

Item 10.E. Taxation

United States Taxation

This summary describes certain U.S. federal income tax consequences for a U.S. holder (as defined below) of acquiring, owning, and disposing of common shares or ADSs. This summary applies to you only if you hold the common shares or ADSs as capital assets for tax purposes. This summary does not apply to you if you are a member of a class of holders subject to special rules, such as:

- a dealer in securities or currencies;
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;
- a bank;
- a life insurance company;
- a tax-exempt organization;
- an entity treated as a partnership for U.S. federal income tax purposes or a partner in such partnership;
- a person that holds common shares or ADSs that are a hedge or that are hedged against interest rate or currency risks;
- a person that holds common shares or ADSs as part of a straddle or conversion transaction for tax purposes;
- a person whose functional currency for tax purposes is not the U.S. dollar; or
- a person that owns or is deemed to own 10% or more of our stock, measured by voting power or value.

This summary is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations promulgated thereunder, and published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

This summary does not discuss the application of the U.S. federal estate and gift taxes, the Medicare net investment income tax or the alternative minimum tax.

Please consult your own tax advisers concerning the U.S. federal, state, local, and other tax consequences of purchasing, owning, and disposing of common shares or ADSs in your particular circumstances.

For purposes of this summary, you are a "U.S. holder" if you are the beneficial owner of a common share or an ADS and are:

- a citizen or resident of the United States;
- a U.S. domestic corporation; or
- otherwise subject to U.S. federal income tax on a net income basis with respect to income from the common share or ADS.

In general, if you are the beneficial owner of ADSs, you will be treated as the beneficial owner of the common shares represented by those ADSs for U.S. federal income tax purposes, and no gain or loss will be recognized if you exchange an ADS for the common share represented by that ADS.

Dividends

The gross amount of cash dividends that you receive (prior to deduction of Korean taxes) generally will be subject to U.S. federal income taxation as foreign source “passive category” dividend income and will not be eligible for the dividends received deduction. Dividends paid in Won will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of your receipt of the dividend, in the case of common shares, or the depositary’s receipt, in the case of ADSs, regardless of whether the payment is in fact converted into U.S. dollars. If such a dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual with respect to the ADSs will be subject to taxation at reduced rates if the dividends are “qualified dividends.” Dividends paid on the common shares or ADSs will be treated as qualified dividends if (i) the common shares or ADSs are readily tradable on an established securities market in the United States or we are eligible for the benefits of a comprehensive tax treaty with the United States that the U.S. Treasury determines is satisfactory for purposes of this provision and that includes an exchange of information program; and (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company as defined for U.S. federal income tax purposes (“PFIC”). The ADSs are listed on the New York Stock Exchange, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. In addition, the U.S. Treasury has determined that the Korea-United States income tax treaty meets the requirements for reduced rates of taxation, and we believe we are eligible for the benefits of that treaty. Based on our audited financial statements, we believe that we were not a PFIC in our 2018 or 2019 taxable year. In addition, based on our audited financial statements and current expectations regarding our income, assets and activities, we do not anticipate becoming a PFIC for our 2020 taxable year. Therefore, we believe that dividends received by U.S. holders with respect to either common shares or ADSs will be “qualified dividends.” Holders should consult their own tax advisers regarding the availability of the reduced dividend tax rate in light of their own particular circumstances.

Distributions of additional shares in respect of common shares or ADSs that are made as part of a pro-rata distribution to all of our stockholders generally will not be subject to U.S. federal income tax.

Sale or Other Disposition

For U.S. federal income tax purposes, gain or loss you realize on a sale or other disposition of common shares or ADSs generally will be treated as U.S. source capital gain or loss, and will be long-term capital gain or loss if the common shares or ADSs were held for more than one year. Your ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual U.S. holder generally is subject to taxation at reduced rates.

If a U.S. holder sells or otherwise disposes of our common shares or ADSs in exchange for currency other than U.S. dollars, the amount realized generally will be the U.S. dollar value of the currency received at the spot rate on the date of sale or other disposition (or, if the shares are traded on an established securities market at such time, in the case of cash basis and electing accrual basis U.S. holders, the settlement date). An accrual basis U.S. holder that does not elect to determine the amount realized using the spot exchange rate on the settlement date will recognize foreign currency gain or loss equal to the difference between the U.S. dollar value of the amount received based on the spot exchange rates in effect on the date of the sale or other disposition and the settlement date. If an accrual basis U.S. holder makes the election described in the first sentence of this paragraph, it must be applied consistently from year to year and cannot be revoked without the consent of the Internal Revenue Service. A U.S. holder should consult its own tax advisers regarding the treatment of any foreign currency gain or loss realized with respect to any currency received in a sale or other disposition of the common shares or ADSs.

Foreign Tax Credit Considerations

You should consult your own tax advisers to determine whether you are subject to any special rules that limit your ability to make effective use of foreign tax credits, including the possible adverse impact of failing to take advantage of benefits under the income tax treaty between the United States and Korea. If no such rules apply, you may claim a credit against your U.S. federal income tax liability for Korean taxes withheld from dividends on the common shares or ADSs, so long as you have owned the common shares or ADSs (and not entered into specified kinds of hedging transactions) for at least a 16-day period that includes the ex-dividend date. Instead of claiming a credit, you may, if you so elect, deduct such Korean taxes in computing your taxable income, subject to generally applicable limitations under U.S. tax law. Korean taxes withheld from a distribution of additional shares that is not subject to U.S. tax may be treated for U.S. federal income tax purposes as imposed on “foreign branch” income. Such treatment could affect your ability to utilize any available foreign tax credit in respect of such taxes.

Any Korean securities transaction tax or agriculture and fishery special surtax that you pay will not be creditable for foreign tax credit purposes.

Similarly, a U.S. holder will not be able to claim a foreign tax credit against its U.S. federal income tax liability for any Korean inheritance or gift tax imposed in respect of the common shares or ADSs.

Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities and may not be allowed in respect of arrangements in which a U.S. holder’s expected economic profit is insubstantial.

The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions involve the application of complex rules that depend on a U.S. holder’s particular circumstances. You should consult your own tax advisers regarding the creditability or deductibility of such taxes.

Specified Foreign Financial Assets

Certain U.S. holders that own “specified foreign financial assets” with an aggregate value in excess of US\$50,000 on the last day of the taxable year or US\$75,000 at any time during the taxable year are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. “Specified foreign financial assets” include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which would include the common shares or ADSs) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. holders who fail to report the required information could be subject to substantial penalties. Prospective investors should consult their own tax advisers concerning the application of these rules to their investment in the common shares or ADSs, including the application of the rules to their particular circumstances.

U.S. Information Reporting and Backup Withholding Rules

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (i) is a corporation or other exempt recipient and demonstrates this when required or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-U.S. status in connection with payments received within the United States or through a U.S.-related financial intermediary.

Korean Taxation

The following summary of Korean tax considerations applies to you so long as you are not:

- a resident of Korea;
- a corporation with its head office, principal place of business or place of effective management in Korea; or
- engaged in a trade or business in Korea through a permanent establishment or a fixed base to which the relevant income is attributable or with which the relevant income is effectively connected.

Taxation of Dividends on Common Shares or ADSs

We will deduct Korean withholding tax from dividends paid to you (whether payable in cash or in shares) at a rate of 22.0% (inclusive of local income surtax). If you are a qualified resident and a beneficial owner of the dividends in a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. See “—Tax Treaties” below for a discussion on treaty benefits. If we distribute to you free shares representing a transfer of earning surplus or certain capital reserves into paid-in capital, that distribution may be subject to Korean withholding tax.

Taxation of Capital Gains from Transfer of Common Shares or ADSs

As a general rule, capital gains earned by non-residents upon transfer of our common shares or ADSs are subject to Korean withholding tax at the lower of (1) 11.0% (inclusive of local income surtax) of the gross proceeds realized or (2) subject to the production of satisfactory evidence of acquisition costs and certain direct transaction costs of the common shares or ADSs, 22.0% (inclusive of local income surtax) of the net realized gain, unless exempt from Korean income taxation under the applicable Korean tax treaty with the non-resident’s country of tax residence. See “—Tax Treaties” below for a discussion on treaty benefits. Even if you do not qualify for an exemption under a tax treaty, you will not be subject to the foregoing withholding tax on capital gains if you qualify under the relevant Korean domestic tax law exemptions discussed in the following paragraphs.

In regards to the transfer of our common shares through the Korea Exchange, you will not be subject to the withholding tax on capital gains (as described in the preceding paragraph) if you (1) have no permanent establishment in Korea and (2) did not own or have not owned (together with any shares owned by any person with which you have a certain special relationship) 25% or more of the total issued and outstanding shares, which may include the common shares represented by the ADSs, at any time during the calendar year in which the sale occurs and during the five consecutive calendar years prior to the calendar year in which the sale occurs.

Under Korean tax law, ADSs are viewed as shares of common stock for capital gains tax purposes. Accordingly, capital gains from the sale or disposition of ADSs are taxed (if such sale or disposition constitutes a taxable event) as if such gains are from the sale or disposition of the underlying common shares. Capital gains that you earn (regardless of whether you have a permanent establishment in Korea) from a transfer of ADSs outside of Korea will generally be exempt from Korean income taxation by virtue of the STTCL, provided that the issuance of the ADSs is deemed to be an overseas issuance under the STTCL. However, if you transfer ADSs after having converted the underlying common shares, such exemption under the STTCL will not apply and you will be required to file a corporate income tax return and pay tax in Korea with respect to any capital gains derived from such transfer unless the purchaser or a financial investment company with a brokerage license, as applicable, withholds and pays such tax.

If you are subject to tax on capital gains with respect to the sale of ADSs, or of our common shares you acquired as a result of a withdrawal, the purchaser or, in the case of the sale of the common shares on the Korea Exchange or through a financial investment company with a brokerage license in Korea, such financial investment company is required to withhold Korean tax on capital gains from the sales price in an amount equal

to the lower of (1) 11.0% (inclusive of local income surtax) of the gross realization proceeds or (2) subject to the production of satisfactory evidence of acquisition costs and certain direct transaction costs of the common shares or ADSs, 22.0% (inclusive of local income surtax) of the net realized gain, and to make payment of these amounts to the Korean tax authority, unless you establish your entitlement to an exemption under an applicable tax treaty or domestic tax law. See the discussion under “—Tax Treaties” below for an additional explanation on claiming treaty benefits.

Tax Treaties

Korea has entered into a number of income tax treaties with other countries (including the United States), which would reduce or exempt Korean withholding tax on dividends on, and capital gains on transfer of, the common shares or ADSs. For example, under the Korea-United States income tax treaty, reduced rates of Korean withholding tax of 16.5% or 11.0% (depending on your shareholding ratio and inclusive of local income surtax) on dividends and an exemption from Korean withholding tax on capital gains are available to residents of the United States that are beneficial owners of the relevant dividend income or capital gains, subject to certain exceptions. However, under Article 17 (Investment or Holding Companies) of the Korea-United States income tax treaty, such reduced rates and exemption do not apply if (i) you are a United States corporation, (ii) by reason of any special measures, the tax imposed on you by the United States with respect to such dividend income or capital gains is substantially less than the tax generally imposed by the United States on corporate profits and (iii) 25% or more of your capital is held of record or is otherwise determined, after consultation between competent authorities of the United States and Korea, to be owned directly or indirectly by one or more persons who are not individual residents of the United States. Also, under Article 16 (Capital Gains) of the Korea-United States income tax treaty, the exemption on capital gains does not apply if (a) you have a permanent establishment in Korea and any shares of common stock in which you hold an interest and which gives rise to capital gains are effectively connected with such permanent establishment, (b) you are an individual and you maintain a fixed base in Korea for an aggregate of 183 days or more during a given taxable year and your ADSs or common shares giving rise to capital gains are effectively connected with such fixed base or (c) you are an individual and you are present in Korea for an aggregate of 183 days or more during a given taxable year.

You should inquire for yourself whether you are entitled to the benefit of a tax treaty between Korea and the country where you are a resident. It is the responsibility of the party claiming the benefits of an income tax treaty in respect of dividend payments or capital gains to submit to us, the purchaser or the financial investment company, as applicable, a certificate as to his tax residence. In the absence of sufficient proof, we, the purchaser or the financial investment company, as applicable, must withhold tax at the normal rates. Furthermore, in order for you to claim the benefit of a tax rate reduction or tax exemption on certain Korean source income (such as dividends or capital gains) under an applicable tax treaty, Korean tax law requires you (or your agent) to submit an application (for reduced withholding tax rate, “application for entitlement to reduced tax rate,” and in the case of exemptions from withholding tax, “application for tax exemption,” along with a certificate of your tax residency issued by a competent authority of your country of tax residence, subject to certain exceptions) as the beneficial owner of such Korean source income (“BO application”). For example, a U.S. resident would be required to provide Form 6166 as a certificate of tax residency together with the application for entitlement to reduced tax rate or the application for tax exemption. Such application should be submitted to the withholding agent prior to the payment date of the relevant income. Subject to certain exceptions, where the relevant income is paid to an overseas investment vehicle (which is not the beneficial owner of such income) (“OIV”), a beneficial owner claiming the benefit of an applicable tax treaty with respect to such income must submit its BO application to such OIV, which must submit an OIV report and a schedule of beneficial owners (and the BO applications collected from each beneficial owner, if such beneficial owner is applying for tax exemption) to the withholding agent prior to the payment date of such income. Effective from January 1, 2020, an OIV that was not established for the purpose of unjustifiably reducing income tax liabilities in Korea and bears tax liabilities in the country of its residence is deemed to be a beneficial owner of Korean source income for income tax purposes. The benefits under a tax treaty between Korea and the country of such OIV’s residence will apply with respect to the relevant income paid to such OIV, subject to certain application requirements as prescribed by the Corporate

Income Tax or Individual Income Tax Law. In the case of a tax exemption application, the withholding agent is required to submit such applications (together with the applicable OIV report in the case of income paid to an OIV) to the relevant district tax office by the ninth day of the month following the date of the payment of such income.

Inheritance Tax and Gift Tax

If you die while holding an ADS or donate an ADS, it is unclear whether, for Korean inheritance tax and gift tax purposes, you will be treated as the owner of the common shares underlying the ADSs. If the tax authority interprets depositary receipts as the underlying share certificates, you may be treated as the owner of the common shares and your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance tax or gift tax presently at the rate of 10% to 50%, provided that the value of the ADSs or the common shares is greater than a specified amount.

If you die while holding a common share or donate a common share, your heir or donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance tax or gift tax at the same rate as indicated above.

At present, Korea has not entered into any tax treaty relating to inheritance tax or gift tax.

Securities Transaction Tax

If you transfer our common shares on the Korea Exchange, you will be subject to securities transaction tax at the rate of 0.1% and an agriculture and fishery special surtax at the rate of 0.15% of the sale price of the common shares. If your transfer of the common shares is not made on the Korea Exchange, subject to certain exceptions, you will be subject to securities transaction tax at the rate of 0.45% and will not be subject to an agriculture and fishery special surtax.

Under the Securities Transaction Tax Law, depositary receipts (such as American depositary receipts) constitute share certificates subject to the securities transaction tax. However, the transfer of depositary receipts listed on the New York Stock Exchange, the Nasdaq Global Market, or other qualified foreign exchanges is exempt from the securities transaction tax.

In principle, the securities transaction tax, if applicable, must be paid by the transferor of the common shares or ADSs. When the transfer is effected through a securities settlement company in Korea, such settlement company is generally required to withhold and pay the tax to the tax authorities. When such transfer is made through a financial investment company only, such financial investment company is required to withhold and pay the tax. Where the transfer is effected by a non-resident without a permanent establishment in Korea, other than through a securities settlement company or a financial investment company, the transferee is required to withhold the securities transaction tax.

Non-reporting or under-reporting of securities transaction tax will generally result in penalties equal to 20% to 60% of the non-reported tax amount or 10% to 60% of under-reported tax amount. Also, a failure to timely pay securities transaction tax will result in a penalty equal to 9.125% per annum of the due but unpaid tax amount. The penalties are imposed on the party responsible for paying the securities transaction tax or, if such tax is required to be withheld, on the party that has the obligation to withhold.

Item 10.F. *Dividends and Paying Agents*

Not applicable.

Item 10.G. *Statement by Experts*

Not applicable.

Item 10.H. Documents on Display

We are subject to the information requirements of the Exchange Act, and, in accordance therewith, are required to file reports, including annual reports on Form 20-F, and other information with the U.S. Securities and Exchange Commission. These materials, including this annual report and the exhibits thereto, may be inspected and copied at the Commission's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. As a foreign private issuer, we are also required to make filings with the Commission by electronic means. Any filings we make electronically will be available to the public over the Internet at the Commission's web site at <http://www.sec.gov>.

Item 10.I. Subsidiary Information

Not applicable.

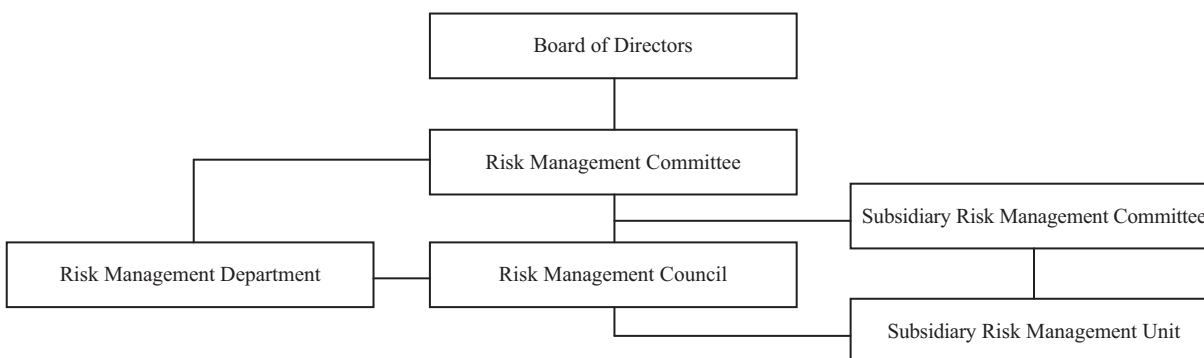
Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**Overview**

As a financial services provider, we are exposed to various risks related to our lending and trading businesses, our funding activities and our operating environment, principally through Kookmin Bank, our banking subsidiary. Our goal in risk management is to ensure that we identify, measure, monitor and control the various risks that arise, and that our organization adheres strictly to the policies and procedures which we establish to address these risks. Under our internal regulations pertaining to our consolidated capital adequacy ratio and internal standards for risk appetite and internal capital under Basel III, we identify the following eight separate categories of risk inherent in our business activities: credit risk, market risk, operational risk, interest rate risk, liquidity risk, credit concentration risk, reputation risk and strategic risk. Of these, the principal risks to which we are exposed are credit risk, market risk, liquidity risk and operational risk, and we strive to manage these and other risks within acceptable limits.

Organization

We have a multi-tiered risk management governance structure. Our Risk Management Committee is ultimately responsible for group-wide risk management, and directs our various subordinate risk management entities. The Risk Management Council coordinates the implementation of policies set forth by the Risk Management Committee with the relevant risk management units of our subsidiaries. The Subsidiary Risk Management Committee of each of our subsidiaries, based on the Risk Management Committee's policies, determines risk management strategies and implements risk management policies and guidelines for such subsidiary and directs the activities of the subsidiary's risk management units within the risk guidelines set at the group level. Each Subsidiary Risk Management Committee generally receives inputs from the respective risk management units of such subsidiary, which report to the Risk Management Committee.

The following chart sets out our risk management governance structure as of the date of this annual report:



Risk Management Committee

Our Risk Management Committee is a board-level committee that is responsible for overseeing all risks and advising the board of directors with respect to risk management-related issues. The committee consists of four non-executive directors (one of whom serves as the chairman of the committee), and convenes on a quarterly basis. Its major roles include:

- establishing risk management strategies in accordance with the directives of the board of directors;
- determining our target risk appetite;
- allocating risk capital to each subsidiary and approving our subsidiaries’ risk limits; and
- reviewing the level of risks we are exposed to and the appropriateness of our risk management policies, systems and operations.

Risk Management Council

Our Risk Management Council is responsible for coordinating with the risk management units of our subsidiaries to ensure that they implement the policies, guidelines and limits established by the Risk Management Committee. The Risk Management Council is comprised of our chief risk management officer and the chief risk management officers of all of our subsidiaries. It operates independently from all business units and convenes on a quarterly basis. Its responsibilities include:

- analyzing our risk status by using information provided by our subsidiary-level risk management units;
- deliberating adjustments to the integrated risk capital allocation plan and risk limits for each of our subsidiaries; and
- coordinating issues relating to the group-wide integration of our risk management functions.

Subsidiary Risk Management Committees

Each of our subsidiaries has delegated risk management authority to its Subsidiary Risk Management Committee. Each Subsidiary Risk Management Committee measures and monitors the various risks faced by the relevant subsidiary and reports to that subsidiary’s board of directors regarding decisions that it makes on risk management issues. It also makes certain strategic risk-related decisions regarding the operations of the relevant subsidiary, such as setting total exposure limits, allocating credit risk limits and market risk-related limits and determining which market risk derivatives instruments the subsidiary can trade. The major activities of each Subsidiary Risk Management Committee include:

- determining and monitoring risk policies, guidelines, limits and tolerance levels and the level of subsidiary risk in accordance with group policy;

- reviewing and analyzing the subsidiary's risk profile;
- setting limits for and adjusting the risk capital allocation plan and risk levels for each business unit within the subsidiary; and
- monitoring compliance with our group-wide risk management policies and practices at the business unit and subsidiary level.

Each Subsidiary Risk Management Committee is comprised of the subsidiary's non-executive directors on its board of directors.

Credit Risk Management

Credit risk is the risk of expected and unexpected losses in the event of borrower or counterparty defaults. Credit risk management aims to improve asset quality and generate stable profits while reducing risk through diversified and balanced loan portfolios. We determine the creditworthiness of each type of borrower or counterparty through reviews conducted by our credit experts and through our credit rating systems, and we set a credit limit for each borrower or counterparty.

We assess and manage all credit exposures. We measure expected losses and internal capital on assets (whether on- or off-balance sheet) that are subject to credit risk management and use expected losses and internal capital as management indicators. We manage credit risk by allocating credit risk internal capital limits. In addition, we control credit concentration risk exposure by applying and managing total exposure limits to prevent excessive risk concentration to particular industries or borrowers. Credit exposures that we assess and manage include loans to borrowers and counterparties, investments in securities, letters of credit, bankers' acceptances, derivatives and commitments. Our risk appetite, which is the ratio of our required internal capital to our estimated available book capital, is approved by the Risk Management Committee once a year. Thereafter, we calculate internal capital every month for all of our subsidiaries and on a holding company level based on attributed internal capital in accordance with the risk appetite as approved by the Risk Management Committee, and measure and report profiles of credit risk on a holding company level and by subsidiary regularly to our senior management, including our Risk Management Committee.

We use expected default rates and recovery rates to determine the expected loss rate of a borrower or counterparty. We use the expected loss rate to make credit related decisions, including pricing, loan approval and establishment of standards to be followed at each level of decision making. These rates are calculated using information gathered from our internal database. With respect to large corporate borrowers, we also use information provided by external credit rating services to calculate default rates and recovery rates.

Our credit risk management processes include:

- establishing credit policy;
- credit evaluation and approval;
- industry assessment;
- total exposure management;
- collateral evaluation and monitoring;
- credit risk assessment;
- early warning and credit review; and
- post-credit extension monitoring.

Credit Evaluation

Kookmin Bank evaluates the ability of all loan applicants to repay their debts before it approves any loans, except for loans fully guaranteed by letters of guarantee issued by the Credit Guarantee Fund and the Korea Technology Credit Guarantee Fund, for loans fully secured by deposits and for other loans similarly guaranteed or secured. Kookmin Bank assigns each borrower or guarantor a credit rating based on the judgment of its experts or scores calculated using the appropriate credit rating system. Factors that Kookmin Bank considers in assigning credit ratings include both financial factors and non-financial factors, such as its perception of a borrower's reliability, management and operational risk and risk relating to the borrower's industry. The credit rating process differs according to the type, size and characteristics of a borrower.

Kookmin Bank uses its internally developed credit rating systems to rate potential borrowers. As the characteristics of each customer segment differ, Kookmin Bank uses several credit rating systems for its customers. The nature of the credit rating system used for a particular borrower depends on whether the borrower is an individual, a SOHO customer, a small- and medium-sized enterprise or a large company. For large companies and small- and medium-sized enterprises, Kookmin Bank has 17 credit ratings ranging from AAA to D for risk management purposes. For retail customers, it has 13 credit ratings ranging from grade 1 to grade 13.

Based on the credit rating of a borrower, Kookmin Bank applies different credit policies, which affect factors such as credit limit, loan period, loan pricing, loan classification and provisioning. Kookmin Bank also uses these credit ratings in evaluating its bank-wide risk management strategy. Factors Kookmin Bank considers in making this evaluation include the profitability of each company or transaction, performance of each business unit and portfolio management. Kookmin Bank monitors the credit status of borrowers and collect information to adjust its ratings appropriately. If Kookmin Bank changes a borrower's credit rating, it will also change the credit policies relating to that borrower and may also change the policies underlying its loan portfolio.

Retail Loan Approval Process

Mortgage Loans and Secured Retail Loans. Branch staff employees of Kookmin Bank forward loan applications to processing centers and Kookmin Bank's processing center staff reviews mortgage loans and retail loans secured by real estate or guarantees. However, in the case of loans secured by deposits with Kookmin Bank, its branch staff approves such loans. Kookmin Bank makes lending decisions based on its assessment of the value of the collateral, debt service capability and the borrower's score generated from its credit scoring systems.

For mortgage loans and loans secured by real estate, Kookmin Bank evaluates the value of the real estate offered as collateral using a database it has developed that contains information about real estate values throughout Korea. Kookmin Bank also uses information from a third party provider about the real estate market in Korea, which gives it up-to-date market value information for Korean real estate. In addition, Kookmin Bank's processing center staff employees review the value of real estate provided by the evaluation system to ensure there are no significant discrepancies. Kookmin Bank bases decisions regarding the approval of such loans primarily on the results of its credit scoring systems.

For loans secured by deposits, Kookmin Bank will generally grant loans up to 95% of the deposit amount if it holds the deposit.

With respect to mortgage loans and secured retail loans, Kookmin Bank screens customers based on various criteria that indicate whether the customer may have deteriorating credit using internal information and rating information from credit bureaus. Kookmin Bank also evaluates debt service capability for eligible customers pursuant to certain checklist items, such as profession, annual income, credit card overdue information, transaction history (with both it and other financial institutions) and other relevant credit information.

Kookmin Bank generally decides whether to evaluate a loan application within three to five days after recording the relevant information in its credit scoring systems.

Unsecured Retail Loans. Kookmin Bank reviews applications for unsecured retail loans in accordance with its credit scoring systems. These automated systems evaluate loan applications and determine an appropriate pricing for the loan. The major benefits of using a credit scoring system are that it yields uniform results regardless of the user and that it can be used effectively by employees who do not necessarily have extensive experience in credit evaluation. The staff of Kookmin Bank's processing centers reviews the results of the credit scoring system based on information input by its branch staff and, if approved, issues the loan.

Kookmin Bank's credit scoring systems take into account factors including borrower's income, assets, profession, transaction history (with both it and other financial institutions) and other relevant credit information. The systems rank each borrower in an appropriate grade, and that grade is used as a factor in deciding whether to approve loans as well as to determine loan amounts. Kookmin Bank generally bases its decisions on the results of its credit scoring systems to evaluate applications.

Corporate Loan Approval Process

We approve corporate loans at different levels of our organization depending on the size and type of the loan, the credit risk level assessed by the credit rating system, whether the loan is secured by collateral and, if secured, the value of the collateral. The lowest level of authority is the branch staff employee of Kookmin Bank, who can approve small loans and loans that have the lowest range of credit risk. Larger loans and loans with higher credit risk are approved by higher levels of authority depending on where they fall in a matrix of loan size and credit risk. Depending on the size and terms of any particular loan or the credit risk relating to a particular borrower, more than one entity may review the application, although generally loan applications are reviewed only by the entity having corresponding authority to approve the loan.

Kookmin Bank evaluates all of its corporate borrowers by using credit rating systems, except for applicants whose borrowings are fully secured by deposits or applicants who have obtained third-party guarantees from the government or certain other very highly rated guarantors. See "—Credit Evaluation."

For owner-operated enterprises (which we refer to as SOHOs), Kookmin Bank has put in place a credit rating system known as Small Office Home Office Corporate Rating System, or SOHO CRS. For other small- and medium-sized enterprises, Kookmin Bank has put in place a similar credit rating system known as Corporate Rating System, or CRS. For large corporations, Kookmin Bank has put in place a similar credit rating system known as Large Corporate Rating System, or LCRS. For financial institutions, certain non-profit organizations and public institutions, Kookmin Bank has put in place a credit rating system known as Financial Institute, Non-profit, Public Corporate Rating System, or FNP CRS. The SOHO CRS, the CRS, the LCRS and the FNP CRS models consist of the following four parts:

- *Financial Model.* The financial model uses financial ratios such as stability ratio, profitability ratio and cash flow ratio to make credit determinations.
- *Non-financial Model.* The non-financial model uses various qualitative and quantitative factors, such as future repayment capability, industry-related risks, management-related risks and operation-related risks, to evaluate borrowers.
- *CEO Evaluation Model.* The CEO evolution model is relevant for the SOHO CRS in particular, and evaluates the credit information of the individual owner of SOHOs by reviewing such owner's personal information, bank transaction records and external credit ratings.
- *Default Signal Check Model.* The default signal check model checks factors that have low frequency of occurrence but are highly likely to lead to a default in the event of an occurrence. The results of the default signal check model may be used to cap a borrower's credit grade.

Credit Card Approval Process

We make decisions on all credit card approvals based on the Financial Supervisory Service standard of review for payment ability (such as the occupation and income of the applicant), as well as a combination of KB Kookmin Card's internal application scoring system and a credit scoring system developed by independent credit bureaus.

KB Kookmin Card's application scoring system reflects various credit information, including basic customer information (such as credit history), transaction history with it, if any, delinquency and transaction history with other card companies and financial institutions and credit information provided by Korea Credit Information Services and other credit bureaus. KB Kookmin Card also considers repayment ability, total assets, total outstanding debts and the length of the applicant's relationship, if any, and past contribution to our profitability, if any.

The credit scoring system developed by credit bureaus, reflects various sources of information regarding the credit risk of customers, including delinquency and transaction history with other credit card companies and financial institutions.

On the basis of the standard of review for payment ability and the combination of the scores from our application scoring system and the credit scoring system developed by independent credit bureaus, KB Kookmin Card establishes, among other things, the term of any new approvals, initial limits and differentiation of fee rates with respect to its credit cards. KB Kookmin Card's systems allow it to differentiate applicants into groups that receive immediate credit card approval or rejection, or that may require it to further investigate that applicant's credit qualifications. The initial limits of new applicants are based on their estimated disposable income, which is based on their occupation and the value of their personal assets. KB Kookmin Card applies its fee rates to applicants differently according to risk premium and profitability.

Total Exposure Management

We establish and manage total exposure limits for industries, *chaebols* and corporations, as well as certain small- and medium-sized enterprises, in order to efficiently manage financial assets and to optimize our credit portfolio. Kookmin Bank establishes total exposure limits for (i) main debtor groups designated by the Financial Supervisory Service, (ii) groups to which Kookmin Bank has total exposure of ₩50 billion or more, (iii) enterprises that belong to a main debtor group or large enterprises, in both cases to which Kookmin Bank has total exposure of ₩40 billion or more, (iv) small- and medium-sized enterprises to which Kookmin Bank has total exposure of ₩30 billion or more and (v) other groups or individual enterprises designated by the head of Kookmin Bank's Risk Management Group as necessary. Kookmin Bank establishes total exposure limit by reviewing factors such as industry, size, cash flows, financial ratios and credit ratings, while establishing exposure limits for industries by reviewing the sales growth rate and risk concentration for each industry. These total exposure limits are set following approval by Kookmin Bank's Risk Management Council after review by the Credit Risk Management Subcommittee.

Kookmin Bank's maximum exposure limit is within 25% of its Tier I and Tier II capital for a single *chaebol*, and within 10% of its Tier I and Tier II capital for an individual large corporation.

We manage and control exposure limits on a daily basis. The principal system that we use for this purpose is the Total Exposure Management System. This system allows us to monitor and control our total exposure to large corporations, *chaebols* and industries. Kookmin Bank monitors its exposure to large corporations to which it has an exposure of ₩40 billion or more, individual corporations to which it has an exposure of ₩30 billion or more, and also its exposure to 128 business groups, which comprise the 30 largest highly-indebted business groups among *chaebols* in Korea designated as such by the Financial Supervisory Service based on their outstanding exposures as well as 98 business groups to which it has exposures (in the form of securities or loans)

of ₩50 billion or more. We also monitor our exposure to 37 industries. Our Total Exposure Management System integrates all of our credit-related risk including credit extended by our overseas branches and affiliates. The assets subject to the system include all Won-denominated and foreign currency-denominated loans, all assets in trust accounts except specified money trusts, guarantees, trade-related credits, commercial paper, corporate bonds and other securities and derivatives.

Collateral Evaluation and Monitoring System

Kookmin Bank uses the Collateral Evaluation and Monitoring System to manage the liquidation value of collateral it holds. The Collateral Evaluation and Monitoring System is a computerized collateral management system that can be accessed from Kookmin Bank's headquarters and its branches. Using this system, Kookmin Bank can more accurately assess the actual liquidation value of collateral, determine the recovery rate on its loans and use this information in setting its credit risk management and loan policies. Kookmin Bank can monitor the value of all the collateral a borrower provides and the value of that collateral based on its liquidation value. When appraising the value of real estate collateral, which makes up the largest part of Kookmin Bank's collateral, Kookmin Bank consults a regularly updated database provided by a third party that tracks the prices at which various types of real estate in various regions of Korea are sold. Kookmin Bank appraises the value of collateral when it makes a loan, when the loan is due for renewal and when events occur that may change the value of the collateral.

Credit Risk Management and Monitoring

Kookmin Bank's Credit Risk Department manages and regulates our loan portfolio policies. It also analyzes and monitors our loan portfolios and monitors our compliance with the applicable limits for credit risk. Moreover, it separately manages high-risk products, such as real estate project financing loans and over-the-counter derivative products, by setting appropriate limits.

Credit Review

Kookmin Bank's credit review function is independent of the business groups which manage our assets. Its Credit Review Department:

- reviews internal credit regulations, policies and systems;
- analyzes the credit status of selected loan assets and verifies the appropriateness of the credit evaluations/approvals made by branches and headquarters; and
- evaluates the corporate credit risk of potentially insolvent companies.

More specifically, Kookmin Bank's Credit Review Department continuously reviews the financial condition of selected borrowers with respect to their current debt, collateral, business, transactions with related parties and debt service capability. Based on such review, Kookmin Bank may adjust the borrower's credit rating, lending policy or asset quality classification of the loan provided to the borrower, depending on the applicable circumstances. Kookmin Bank also regularly reviews other aspects of the lending process, including industries and regions in which its borrowers operate and the quality of its domestic and overseas assets. Kookmin Bank's industry reviews focus on growth, stability, competition and ability to adapt to a changing environment. Based on the results of a particular industry review, Kookmin Bank may revise the total exposure limit assigned to that industry and lending policy for each company within that industry. When a review takes place, Kookmin Bank may adjust not only credit ratings of its borrowers based on a variety of factors, but also asset quality classification, credit limits and applied interest rates or its credit policies. Credit review results are reported to Kookmin Bank's chief risk management officer and its Risk Management Committee on a quarterly basis.

Kookmin Bank's Credit Review Department also conducts on-site reviews of selected branches that are experiencing increasing delinquency ratios and bad debts. During these visits Kookmin Bank examines the loan processes and recommends improvement plans and appropriate follow-up measures.

Also, based on guidelines provided by the Financial Supervisory Service to all Korean banks, Kookmin Bank operates a corporate credit risk assessment program to facilitate the identification of weak companies and possible commencement of corporate restructuring. Through this program, Kookmin Bank, together with other banks, is able to detect symptoms of financially troubled companies at an early stage, assess related credit risk and support the normalization of companies that are likely to turnaround through a workout process, or seek to liquidate those companies that are not likely to recover.

Kookmin Bank's Credit Review Department also analyzes issues related to credit risk and provides information necessary for the formulation of effective credit policies and strategies and for effective credit risk management.

Market Risk Management

The major risk to which we are exposed is interest rate risk on debt instruments and interest bearing securities and, to a lesser extent, stock price risk and foreign exchange risk. The financial instruments that expose us to these risks are securities and financial derivatives. We are also exposed to interest rate risk and liquidity risk in Kookmin Bank's banking book. We divide market risk into risks arising from trading activities and risks arising from non-trading activities.

Kookmin Bank's Risk Management Council establishes overall market risk management principles. It has delegated the responsibility for the market risk management for trading activities to the Market Risk Management Subcommittee of Kookmin Bank, which is chaired by Kookmin Bank's chief risk management officer. This subcommittee meets on a regular basis each month and as required to respond to developments in the market and the economy. Based on the policies approved by Kookmin Bank's Risk Management Council, the Market Risk Management Subcommittee reviews and approves reports as required that include trading profits and losses, position reports, limit utilization, sensitivity analysis and VaR results for our trading activities.

Kookmin Bank's Risk Management Council is responsible for interest rate and liquidity risk management for its non-trading activities. The council meets on a regular basis and as required to respond to developments in the market and the economy. Members of the Risk Management Council, acting through Kookmin Bank's Risk Management Department, review Kookmin Bank's interest rate and liquidity gap position monthly, as well as the business profile and its impact on asset and liability management.

To ensure adequate interest rate and liquidity risk management, we have assigned the responsibilities for our asset and liability risk management to Kookmin Bank's Risk Management Department in Kookmin Bank's Risk Management Group, which monitors and reviews the asset and liability operating procedures and activities of Kookmin Bank's Financial Planning Department and Asset and Liability Risk Management Department, and independently reports to the management on the related issues.

Market Risk Management for Trading Activities

Our trading activities consist of:

- trading activities for our own account to realize short-term trading profits in Won-denominated debt and equities markets and foreign exchange markets based on our short-term forecast of changes in the market situation; and
- trading activities involving derivatives, such as swaps, forwards, futures and option transactions, to realize profits primarily from selling derivative products to our customers and to hedge market risk incurred from those activities. In addition, certain derivative products that we use to hedge our own market risk are classified as trading activities as they do not qualify for hedge accounting treatment under IFRS. We believe, however, that certain of these products are effective as economic hedges.

We use derivative instruments to hedge our market risk and, to a limited extent, to make profits by trading derivative products within acceptable risk limits. The principal objective of our hedging strategy is to manage our market risk within established limits. We use the following hedging instruments to manage relevant risks:

- to hedge interest rate risk arising from its trading activities, the Trading/Capital Markets Department of Kookmin Bank occasionally uses interest rate futures (Korea Treasury Bond Futures) and interest rate swaps;
- to hedge stock price risk arising from its trading activities, the Trading/Capital Markets Department of Kookmin Bank selectively uses stock index futures;
- to hedge interest rate risk and foreign exchange risk arising from our foreign currency-denominated asset and liability positions as well as our trading activities, the Treasury Unit within the Capital Markets Department of Kookmin Bank uses interest rate swaps, cross-currency interest rate swaps, foreign exchange forwards and futures, Euro-dollar futures and currency options; and
- to change the interest rate characteristics of certain assets and liabilities after the original investment or funding, we use swaps. For example, depending on the market situation, we may choose to obtain fixed rate funding instead of floating rate funding if we believe that the terms are more favorable, which we can achieve by entering into interest rate swaps.

We generally manage our market risk at the portfolio level. To control our exposure to market risk, we use internal capital limits set by Kookmin Bank's Risk Management Committee for Kookmin Bank and at the group level within Kookmin Bank, VaR, position and stop loss limits set by Kookmin Bank's Risk Management Council for Kookmin Bank and at the group level within Kookmin Bank, and VaR, position, stop loss and sensitivity limits (PVBP, Delta, Gamma, Vega) set by Kookmin Bank's Market Risk Management Subcommittee at the department level within Kookmin Bank. We prepared our risk control and management guidelines for derivative trading based on the regulations and guidelines promulgated by the Financial Supervisory Service.

In addition, we have implemented internal processes which include a number of key controls designed to ensure that fair value is measured appropriately, particularly where a fair value model is internally developed and used to price a significant product. See "Item 5.A. Operating Results—Critical Accounting Policies—Valuation of Financial Instruments" and Notes 4.4 and 6 of the notes to our consolidated financial statements. For example, each year, Kookmin Bank's Risk Management Department reviews the existing pricing and valuation models, with a focus on their underlying modeling assumptions and restrictions, to assess the appropriateness of their continued use. In consultation with Kookmin Bank's Trading Department, the Risk Management Department recommends potential valuation models to Kookmin Bank's Fair Value Evaluation Committee. Upon approval by Kookmin Bank's Fair Value Evaluation Committee, the selected valuation models are reported to its Market Risk Management Subcommittee.

We monitor market risk arising from trading activities of our business groups and departments. The market risk measurement model we use for both our Won-denominated trading operations and foreign currency-denominated trading operations is implemented through our integrated market risk management system called Adaptiv, which enables us to generate consistent VaR numbers for all trading activities.

Value at Risk analysis. We use VaR to measure market risk. VaR is a statistically estimated maximum amount of loss that could occur over a given period of time at a given level of confidence. VaR is a commonly used market risk management technique. However, this approach does have some shortcomings. VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and magnitude of the actual losses can be different depending on the assumptions made at the time of calculation. In addition, the time periods used for the model, generally one or ten days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or too long, the VaR

results may understate or overstate the potential loss. Different VaR methodologies and distributional assumptions could produce a materially different VaR. VaR is most appropriate as a risk measure for trading positions in liquid capital markets and will understate the risk associated with severe events, such as a period of extreme illiquidity.

We use a 99% single tail confidence level to measure VaR, which means the actual amount of loss may exceed the VaR, on average, once out of 100 business days. Until 2011, we used the “variance-covariance method” or parametric VaR (“PVAR”) methodology to measure our daily VaR, which took into account the diversification effects among different risk categories as well as within the same risk category. In 2012, we received authorization from the Financial Services Commission to use a historical simulation VaR (“HSVaR”) methodology, which we believe to be more accurate and responsive in reflecting market volatilities, to measure market risk. Our ten-day HSVaR method, which is computed using a full valuation and is computationally intensive, uses an archive of historic price data and the VaR for a portfolio is estimated by creating a hypothetical time series of returns on that portfolio, obtained by running the portfolio through actual ten-day historical data and computing the changes that would have occurred in each ten-day period.

The following table shows the volume and types of positions held by Kookmin Bank for which the VaR method is used to measure market risk as of December 31, 2017, 2018 and 2019.

	As of December 31,		
	2017	2018	2019
	(in millions of Won)		
Securities—Bond ⁽¹⁾	₩ 8,179,481	₩ 9,167,080	₩10,615,199
Securities—Equity ⁽¹⁾	43,214	42,943	106,321
Spot exchanges ⁽²⁾	4,029,675	3,496,671	3,963,814
Derivatives ⁽³⁾	5,438,917	3,364,318	4,564,306
Total	₩17,691,288	₩16,071,012	₩19,249,640

- (1) Represents amounts marked to market and as shown on the balance sheet information that is prepared and submitted to the Financial Supervisory Service for risk management purposes.
- (2) Represents the overall net open currency position in each currency, which is the greater of (i) the sum of the absolute value of all short positions and (ii) the sum of the absolute value of all long positions.
- (3) For over-the-counter derivatives, represents the absolute value of over-the-counter derivatives measured at fair value at year end. For exchange-traded derivatives, includes the amount of deposits and the collateral posted for such derivatives.

The following table shows Kookmin Bank’s ten-day HSVaRs (at a 99% confidence level for a ten-day holding period) as of December 31, 2017, 2018 and 2019 for interest risk, stock price risk and foreign exchange risk relating to its trading activities. The following figures were calculated on a consolidated basis.

	As of December 31,		
	2017	2018	2019
	(in billions of Won)		
Risk categories:			
Interest risk	₩ 23.8	₩ 7.1	₩ 16.6
Stock price risk	1.3	3.3	3.9
Foreign exchange risk	24.3	16.5	13.1
Less: diversification	(29.7)	(11.9)	(13.2)
Diversified VaR for overall trading activities	₩ 19.6	₩ 14.9	₩ 20.4

In 2019, the average, high, low and ending amounts of ten-day HSVaR (at a 99% confidence level for a ten-day holding period) for Kookmin Bank relating to its trading activities were as follows.

	Trading activities VaR for 2019			
	Average	Minimum	Maximum	As of December 31, 2019
	(in billions of Won)			
Interest risk	₩11.2	₩ 1.7	₩ 20.5	₩ 16.6
Stock price risk	3.4	2.4	4.3	3.9
Foreign exchange risk	15.8	11.4	20.7	13.1
Less: diversification				(13.2)
Diversified VaR for overall trading activities	<u>₩17.5</u>	<u>₩ 13.6</u>	<u>₩ 24.8</u>	<u>₩ 20.4</u>

In 2018, the average, high, low and ending amounts of ten-day HSVaR (at a 99% confidence level for a ten-day holding period) for Kookmin Bank relating to its trading activities were as follows.

	Trading activities VaR for 2018			
	Average	Minimum	Maximum	As of December 31, 2018
	(in billions of Won)			
Interest risk	₩12.5	₩ 6.0	₩ 18.7	₩ 7.1
Stock price risk	3.0	1.3	4.8	3.3
Foreign exchange risk	9.4	5.0	16.5	16.5
Less: diversification				(11.9)
Diversified VaR for overall trading activities	<u>₩16.2</u>	<u>₩11.7</u>	<u>₩ 23.1</u>	<u>₩ 14.9</u>

In 2017, the average, high, low and ending amounts of ten-day HSVaR (at a 99% confidence level for a ten-day holding period) for Kookmin Bank relating to its trading activities were as follows.

	Trading activities VaR for 2017			
	Average	Minimum	Maximum	As of December 31, 2017
	(in billions of Won)			
Interest risk	₩22.7	₩ 14.3	₩ 42.2	₩ 23.8
Stock price risk	1.0	0.8	1.3	1.3
Foreign exchange risk	32.7	12.4	44.3	24.3
Less: diversification				(29.8)
Diversified VaR for overall trading activities	<u>₩23.3</u>	<u>₩ 16.5</u>	<u>₩ 30.2</u>	<u>₩ 19.6</u>

Standardized Method. Market risk for positions not measured by VaR are measured using the standardized method for measuring market risk-based required equity capital specified by the Financial Supervisory Service, which takes into account certain risk factors. Under the standardized method, the required equity capital is measured using the risk-weighted values for each risk factor. The method used to measure the market risk-based required equity capital for each risk factor is as follows:

- Interest rate risk:
 - General market risk: General market risk relates to the risk of losses from macroscopic events which could have an impact on interest rates, stock prices, exchange rates, and market prices of general commodities. General market interest rate risk of a debt security is calculated on its net position, taking into consideration the remaining maturity and coupon rate.

- Specific risk: Specific risk relates to the risk of loss from changes in credit risk of issuers of debt securities or equities, excluding changes in general market prices. Specific interest rate risk of a debt security is measured by multiplying the interest rate position appraised based on the market price of such security by the risk-weighted value applicable to the type of debt security, credit rating and the remaining maturity.
- Equity risk: General and specific equity risk are calculated by multiplying the bought or sold position by the relevant risk-weighted values.
- Foreign exchange risk: Foreign exchange risk is measured by multiplying the larger of the absolute values among the net bought or sold positions of each currency by the relevant risk-weighted values.
- Option risk: Option risk is measured using the delta, gamma and vega of the option.

The standardized method is used to measure the market risk of the positions for which the Financial Supervisory Service has not approved the use of the VaR method. In addition, we use the standardized method for positions which are held by certain subsidiaries or for which measuring VaR is difficult due to the lack of daily position data. See Note 4.4.3 of the notes to our consolidated financial statements included elsewhere in this annual report.

The following table shows the volume and types of instruments held by Kookmin Bank for which the standardized method is used to measure its required equity capital as of December 31, 2017, 2018 and 2019.

	As of December 31,		
	2017	2018	2019
	(in millions of Won)		
Swaps and foreign exchange positions ⁽¹⁾	₩ 14,742	₩ 24,366	₩ 30,864
Derivative-linked securities ⁽²⁾	95,357	126,416	160,576
Options embedded in convertible bonds ⁽³⁾	17,303	—	—
Total	₩127,402	₩150,783	₩191,440

⁽¹⁾ The overall net open currency position is the greater of (i) the sum of the absolute value of all short positions and (ii) the sum of the absolute value of all long positions. In the first half of 2015, Kookmin Bank received approval from the Financial Supervisory Service to use its internal VaR model, in lieu of the standardized method, to measure the market risk of positions held by Kookmin Bank (China) Ltd. The amounts represent the value of interest rate swaps held by a special purpose vehicle of Kookmin Bank and the foreign exchange positions held by KB Microfinance Myanmar Co., Ltd., for which the standardized method is used to measure Kookmin Bank's required equity capital.

⁽²⁾ Amounts as of December 31, 2017, 2018 and 2019 represent the value of derivative-linked securities held by the trust accounts of Kookmin Bank subject to consolidation, for which the standardized method is used to measure Kookmin Bank's required equity capital.

⁽³⁾ Represents the absolute value of over-the-counter derivatives measured at fair value at year end for monitoring purposes.

The following table shows Kookmin Bank's required equity capital measured using the standardized method as of December 31, 2017, 2018 and 2019.

	As of December 31,		
	2017 ⁽¹⁾	2018 ⁽¹⁾	2019 ⁽¹⁾
	(in millions of Won)		
Risk categories:			
Interest risk	₩ 98,236	₩112,153	₩83,731
Stock price risk	1,646	19,756	1,953
Foreign exchange risk	810	1,338	1,850
Total	₩100,691	₩133,248	₩87,534

⁽¹⁾ In the first half of 2015, Kookmin Bank received approval from the Financial Supervisory Service to use its internal VaR model, in lieu of the standardized method, to measure the market risk of certain instruments held by Kookmin Bank, including 30-year government bonds held by Kookmin Bank, as well as positions held by certain subsidiaries of Kookmin Bank, including Kookmin Bank (China) Ltd.

Back-Testing. We conduct back testing on a daily basis to validate the adequacy of our market risk model. In back testing, we compare both the actual and hypothetical profit and loss with the VaR calculations and analyze any results that fall outside our predetermined confidence interval of 99%. The number of times the actual changes in fair values, earnings or cash flows from the market risk sensitive instruments exceeded the VaR amounts in 2017, 2018 and 2019 was 0, 2 and 5, respectively.

Stress testing. In addition to VaR, which assumes normal market situations, we use stress testing to assess our market risk exposure to abnormal market fluctuations. Abnormal market fluctuations include significant declines in the stock market and significant increases in the general level of interest rates. This is an important way to supplement VaR, as VaR is a statistical expression of possible loss under a given confidence level and holding period. It does not cover potential loss if the market moves in a manner that is outside our normal expectations. Stress testing projects the anticipated change in value of holding positions under certain scenarios assuming that no action is taken during a stress event to change the risk profile of a portfolio. According to Kookmin Bank's stress testing, we estimate that as of December 31, 2019, Kookmin Bank's trading portfolio could have lost ₩327 billion for an assumed short-term extreme decline of approximately 33% in the equity market and an approximate 54 basis point increase in the Korean treasury bond rates under an abnormal stress environment.

We monitor the impact of market turmoil or any abnormality by conducting stress tests and confirming that the results are within our market risk limits. If the impact is large, Kookmin Bank's chief risk management officer may request that our portfolio be restructured or other appropriate action be taken.

Interest Risk

Interest risk from trading activities arises mainly from our trading of Won-denominated debt securities. Our trading strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates. As our trading accounts are marked-to-market daily, we manage the interest risk related to our trading accounts using market value-based tools such as VaR and sensitivity analysis. As of December 31, 2019, the VaR of Kookmin Bank's interest risk from trading was ₩16.6 billion and the weighted average duration, or weighted average maturity, of its Won-denominated debt securities at fair value through profit or loss was approximately 1.9 years.

Foreign Exchange Risk

Foreign exchange risk arises because we have assets and liabilities that are denominated in currencies other than Won, as well as off-balance sheet items such as foreign exchange forwards and currency swaps. Our assets and liabilities denominated in U.S. dollars, Japanese Yen, Euro and Chinese Renminbi have typically accounted for the majority of our foreign currency assets and liabilities.

The difference between our foreign currency assets and liabilities is offset against forward foreign exchange positions, currency options and currency swaps to obtain our net foreign currency open position. Kookmin Bank's Risk Management Council and Market Risk Management Subcommittee oversee Kookmin Bank's foreign exchange exposure for both trading and non-trading purposes by establishing a limit for this net foreign currency open position, together with stop loss limits. VaR limits are established on a combined basis for our domestic operations and foreign branches.

The following table shows Kookmin Bank's non-consolidated net open positions at the end of 2017, 2018 and 2019. Positive amounts represent long positions and negative amounts represent short positions. The net open positions held by subsidiaries other than Kookmin Bank are not significant.

	As of December 31, ⁽¹⁾		
	2017	2018	2019
	(in millions of US\$)		
Currency:			
U.S. dollars	US\$(714.4)	US\$(495.2)	US\$(592.9)
Japanese Yen	(0.7)	(1.6)	(0.2)
Euro	(1.3)	(0.2)	(1.9)
Kazakhstan Tenge	—	—	—
Chinese Renminbi	47.2	21.9	12.8
Others	7.4	146.9	189.2
Total	US\$(661.8)	US\$(328.2)	US\$(393.0)

⁽¹⁾ Amounts prepared on a non-consolidated basis.

Equity Price Risk

Equity price risk results from our equity derivatives trading portfolio in Won since we do not have any trading exposure to shares denominated in foreign currencies other than foreign equity index futures.

The equity derivatives trading portfolio in Won consists of exchange-traded stocks and equity derivatives under strict limits on diversification as well as position limits and stop loss limits.

Kookmin Bank's Risk Management Council and Market Risk Management Subcommittee set annual and monthly stop loss limits that are monitored by Kookmin Bank's Risk Management Department. In order to ensure timely action, the stop loss limit of individual securities is monitored by the relevant middle office.

As of December 31, 2019, Kookmin Bank's equity trading position was ₩34.8 billion.

Derivative Market Risk

Our derivative trading includes interest rate and cross-currency swaps, foreign exchange forwards, stock index and interest rate futures and currency options. These activities consist primarily of the following:

- sales of tailor-made derivative products that meet various needs of our corporate customers and related transactions to reduce our exposure resulting from those sales;
- taking positions in limited cases when we expect short-swing profits based on our market forecasts; and
- trading to hedge our interest rate and foreign currency risk exposure as described above.

Market risk from trading derivatives is not significant since our derivative trading activities are primarily driven by customer deals with very limited open trading positions.

Market Risk Management for Non-Trading Activities

Interest Rate Risk

Our principal market risk from non-trading activities is interest rate risk. Interest rate risk arises due to mismatches in the maturities or re-pricing periods of these rate-sensitive assets and liabilities. We measure interest rate risk for Won and foreign currency assets and liabilities in our bank accounts (including derivatives)

and our principal guaranteed trust accounts. Most of our interest-earning assets and interest-bearing liabilities are denominated in Won and our foreign currency-denominated assets and liabilities are mostly denominated in U.S. dollars.

Our principal interest rate risk management objectives are to generate stable net interest revenues and to protect our asset value against interest rate fluctuations. We principally manage this risk for our non-trading activities by analyzing and managing maturity and duration gaps between our interest-earning assets and interest-bearing liabilities. In addition, we use hedging instruments for interest rate risk management for our non-trading assets and liabilities.

Interest rate gap analysis measures expected changes in net interest revenues by calculating the difference in the amounts of interest-earning assets and interest-bearing liabilities at each maturity and interest resetting date. We perform interest rate gap analysis for Won-denominated and foreign currency-denominated assets and trust assets on a monthly basis or more frequently when deemed necessary.

Interest Rate Gap Analysis. We perform interest rate gap analysis based on interest rate repricing maturities of assets and liabilities. However, for some of our assets and liabilities with either no maturities or unique characteristics, we use or assume certain maturities, including the following examples:

- With respect to asset maturities, we assume remaining maturities of prime rate-linked loans with remaining maturities of over one year to be one year and use the actual maturities for prime rate-linked loans with remaining maturities of less than one year.
- With respect to liability maturities, we use last 36 months' average balance to segregate "non-core" and "core" demand deposits. We assume "non-core" demand deposits to have remaining maturities of one month or less, and we assume "core" demand deposits to have remaining maturities between one month and five years.

The following table shows Kookmin Bank's interest rate gap for Won-denominated accounts and foreign currency-denominated accounts as of December 31, 2019.

	As of December 31, 2019					
	0-3 Months	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Total
	(in billions of Won, except percentages)					
Won-denominated						
Interest-earning assets:						
Loans	₩ 89,554	₩68,300	₩ 57,621	₩30,835	₩22,437	₩268,747
Securities	4,281	3,796	5,564	25,537	7,463	46,641
Others	6,871	175	80	127	9	7,262
Total	<u>₩100,706</u>	<u>₩72,271</u>	<u>₩ 63,265</u>	<u>₩56,499</u>	<u>₩29,909</u>	<u>₩322,650</u>
Interest-bearing liabilities:						
Deposits	₩100,410	₩44,557	₩ 77,652	₩33,633	₩25,851	₩282,103
Borrowings	8,790	0	0	120	152	9,062
Others	7,658	1,380	3,060	3,960	3,710	19,768
Total	<u>₩116,858</u>	<u>₩45,937</u>	<u>₩ 80,712</u>	<u>₩37,713</u>	<u>₩29,713</u>	<u>₩310,933</u>
Sensitivity gap	(16,152)	26,334	(17,447)	18,786	196	11,717
Cumulative gap	(16,152)	10,182	(7,265)	11,521	11,171	
% of total assets	(5.0)%	3.2%	(2.3)%	3.6%	3.6%	
Foreign currency-denominated						
Interest-earning assets:						
Due from banks	₩ 3,316	₩ 260	₩ 128	₩ 0	₩ 0	₩ 3,704
Loans	13,165	2,066	889	260	433	16,813
Securities	1,283	261	329	2,172	1,611	5,656
Total	<u>₩ 17,763</u>	<u>₩ 2,588</u>	<u>₩ 1,346</u>	<u>₩ 2,432</u>	<u>₩ 2,044</u>	<u>₩ 26,173</u>
Interest-bearing liabilities:						
Deposits	₩ 7,498	₩ 6,513	₩ 1,403	₩ 84	₩ 0	₩ 15,499
Borrowings	6,738	1,893	428	3	2	9,063
Others	380	238	804	1,511	1,993	4,925
Total	<u>₩ 14,615</u>	<u>₩ 8,645</u>	<u>₩ 2,634</u>	<u>₩ 1,598</u>	<u>₩ 1,995</u>	<u>₩ 29,487</u>
Sensitivity gap	3,147	(6,057)	(1,288)	834	49	(3,314)
Cumulative gap	3,147	(2,909)	(4,197)	(3,363)	(3,314)	
% of total assets	12.0%	(11.1)%	(16.0)%	(12.8)%	(12.7)%	

Duration Gap Analysis. We also perform duration gap analysis to measure and manage interest rate risk. Duration gap analysis is a more long-term risk indicator than interest rate gap analysis, as interest rate gap analysis focuses more on accounting income as opposed to the market value of the assets and liabilities. We emphasize duration gap analysis because, in the long run, our principal concern with respect to interest rate fluctuations is the net asset value rather than net interest revenue changes. In 2019, our Won-denominated asset and liability duration gap was positive and it moved between (+)0.113 years and (+)0.273 years. Accordingly, our net asset value would have declined (or increased) between ₩352 billion and ₩890 billion if interest rates had decreased (or increased) by one percentage point.

For duration gap analysis we use or assume the same maturities for different assets and liabilities that we use or assume for our interest rate gap analysis.

The following table shows Kookmin Bank's duration gaps and net asset value changes when interest rates decrease by one percentage point as of the specified dates, on a non-consolidated basis.

Won-denominated	Asset Duration	Liability Duration	Duration Gap	Net Asset Value Change
Date	(in years)	(in years)	(in years)	(in billions of Won)
June 30, 2019	0.924	0.858	0.113	₩352
December 31, 2019	1.126	0.907	0.273	890

Foreign currency-denominated	Asset Duration	Liability Duration	Duration Gap	Net Asset Value Change
Date	(in years)	(in years)	(in years)	(in billions of Won)
June 30, 2019	0.507	0.425	0.032	₩8
December 31, 2019	0.547	0.474	0.020	5

We set interest rate risk limits using historical interest rate volatility of financial bonds and duration gaps with respect to expected asset and liability positions based on our annual business plans. The Risk Management Department in Kookmin Bank's Risk Management Group submits interest rate gap analysis reports, duration gap analysis reports and interest rate risk limit compliance reports monthly to Kookmin Bank's Risk Management Council and quarterly to Kookmin Bank's Risk Management Committee.

The following table summarizes Kookmin Bank's interest rate risk, taking into account asset and liability durations as of December 31, 2019.

	As of December 31, 2019					
	3 Months or Less	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Total
	(in billions of Won, except percentages and maturities in years)					
Won-denominated:						
Asset position	₩100,706	₩72,271	₩ 63,265	₩56,499	₩29,909	₩322,650
Liability position	116,858	45,937	80,712	37,713	29,713	310,933
Gap	(16,152)	26,334	(17,447)	18,786	196	11,717
Average maturity	0.245	0.488	0.965	2.773	5.156	
Interest rate volatility	0.03%	0.18%	0.43%	0.73%	1.02%	
Amount at risk	1	21	(73)	246	98	293
Foreign currency-denominated:						
Asset position	₩ 17,763	₩ 2,588	₩ 1,346	₩ 2,432	₩ 2,044	₩ 26,173
Liability position	14,615	8,645	2,634	1,598	1,995	29,487
Gap	3,148	(6,057)	(1,288)	834	49	(3,314)
Average maturity	0.246	0.489	0.966	2.761	5.107	
Interest rate volatility	(1.37)%	(1.30)%	(0.98)%	(0.64)%	(0.47)%	
Amount at risk	(6)	37	10	(9)	(4)	28

IRRBB Analysis. Prior to January 2020, we estimated the maximum possible loss on net non-trading assets due to unfavorable changes in interest rates by calculating interest rate VaR using a historical simulation method with actual historical price, volatility and yield changes in comparison with the current position to generate hypothetical portfolios and calculate a distribution of position and portfolio market value changes. Using this method, Kookmin Bank's interest rate VaR was ₩350 billion as of December 31, 2017, ₩167 billion as of December 31, 2018 and ₩320 billion as of December 31, 2019.

Recent amendments to the Detailed Regulation on the Supervision of the Banking Business, which became effective in November 2019, require banks, including Kookmin Bank, to adopt the standards of the Interest Rate

Risk in the Banking Book, or IRRBB, issued by the Basel Committee on Banking Supervision for calculating interest rate risk exposure. Such amendments were adopted in order to promote more financial stability for banks by requiring them to maintain a sufficient level of capital through a more robust risk management system. Under the new IRRBB analysis standards, Kookmin Bank estimates its interest rate risk by calculating the changes in economic value of equity and the changes in net interest income based on various interest rate risk scenarios. Under this method, Kookmin Bank's interest risk exposure was ₩492 billion as of December 31, 2019.

For additional information, see Note 4.4 of the notes to our consolidated financial statements included elsewhere in this annual report.

Foreign Exchange Risk

We manage foreign exchange rate risk arising from our non-trading operations together with such risks arising from our trading operations. See “—Market Risk Management for Trading Activities—Foreign Exchange Risk” above.

Liquidity Risk Management

Liquidity risk is the risk of insolvency or loss due to a disparity between the inflow and outflow of funds resulting from, for example, maturity mismatches, obtaining funds at a high price or disposing of securities at an unfavorable price due to lack of available funds. We manage our liquidity in order to meet our financial liabilities from withdrawals of deposits, redemption of matured debentures and repayments at maturity of borrowed funds. We also require sufficient liquidity to fund loans, to extend other credits and to invest in securities. Our liquidity management goal is to meet all our liability repayments on time and fund all investment opportunities even under adverse conditions. To date, we have not experienced significant liquidity risk.

We maintain liquidity by holding sufficient quantities of assets that can be liquidated to meet actual or potential demands for funds from depositors and others. We also manage liquidity by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds we believe we could raise by issuing securities. We seek to minimize our liquidity costs by managing our liquidity position on a daily basis and by limiting the amount of cash at any time that is not invested in interest-earning assets or securities.

We maintain diverse sources of liquidity to facilitate flexibility in meeting our funding requirements. We fund our operations principally by accepting deposits from retail and corporate depositors, accessing the call loan market (a short-term market for loans with maturities of less than 90 days), issuing debentures and borrowing from the Bank of Korea. We use the majority of funds we raise to extend loans or purchase securities. Generally, deposits are of shorter average maturity than loans or investments.

For Won-denominated assets and liabilities, we manage liquidity using a cash flow structure based on holding short-term liabilities and long-term assets. Generally, the average initial contract maturity of our new Won-denominated time deposits was less than one year, while during the same period most of our new loans and securities had maturities over one year.

We manage liquidity risk within the limits set on Won and foreign currency accounts in accordance with the regulations of the Financial Services Commission. The Financial Services Commission requires Korean banks, including Kookmin Bank, to maintain a liquidity coverage ratio of not less than 100%. The Financial Services Commission defines the liquidity coverage ratio as the ratio of highly liquid assets to total net cash outflows over a 30-day period. The highly liquid assets and total net cash outflows included in the calculation of the liquid coverage ratio are determined in accordance with the “Standards for Calculation of Liquidity Coverage Ratio” under the Detailed Regulation on the Supervision of the Banking Business. In addition, the Financial Services Commission requires Korean banks, including Kookmin Bank, to maintain a foreign currency liquidity coverage ratio of not less than 80%.

Kookmin Bank’s Asset Liability Management Department is responsible for daily liquidity management with respect to its Won and foreign currency exposure. It reports monthly plans for funding and operations to the Asset Liability Management Committee of Kookmin Bank, which discusses factors such as interest rate movements and maturity structures of its deposits, loans and securities and establishes strategies with respect to deposit and lending rates.

The following table shows Kookmin Bank’s liquidity coverage ratio and foreign currency liquidity coverage ratio on an average balance basis for the month of December 2019 in accordance with Financial Services Commission regulations:

Liquidity coverage ratio:	30 Days or Less
	(in billions of Won, except percentages)
Highly liquid assets (A)	₩57,587
Cash outflows (B)	68,155
Cash inflows (C)	13,731
Total net cash outflows (D = B-C)	54,424
Liquidity coverage ratio (A/D)	105.81%
Minimum limit	100%
Foreign currency liquidity coverage ratio:	30 Days or Less
	(in millions of US\$, except percentages)
Highly liquid assets (A)	US\$ 2,702
Cash outflows (B)	7,617
Cash inflows (C)	5,118
Total net cash outflows (D = B-C)	2,499
Liquidity coverage ratio (A/D)	108.15%
Minimum limit	80%

The Risk Management Department in Kookmin Bank’s Risk Management Group reports whether it is complying with these limits monthly to Kookmin Bank’s Risk Management Council and quarterly to Kookmin Bank’s Risk Management Committee.

Operational Risk Management

Overall Status

There is no complete consensus on the definition of operational risk in the banking industry. We define operational risk broadly to include all financial and non-financial risks, other than credit risk, market risk, interest rate risk and liquidity risk, that may arise from our operations that could negatively impact our capital, including the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events as defined under Basel II. Our operational risk management objectives include not only satisfying regulatory requirements, but also providing internal support through the growth of a strong risk management culture, reinforcement of internal controls, improvement of work processes and provision of timely feedback to management members and staff throughout the group.

Each of our subsidiaries manages operational risks related to its own business, and we regularly monitor them. Kookmin Bank, our banking subsidiary, uses an operational risk management framework meeting the Basel II Advanced Measurement Approach, or AMA, under which Kookmin Bank:

- calculates its operational risk VaR on a quarterly basis using the “loss distribution approach VaR” and “scenario based VaR” methodology;

- monitors operational risk in terms of Key Risk Indicators, or KRIs, using tolerance levels for each indicator;
- executes integrated compliance and operational risk Control Self Assessments, or CSAs, that enhance the effect on internal controls, which Kookmin Bank employees are able to access and use for process improvement;
- collects and analyzes internal and external loss data;
- conducts scenario analyses to evaluate exposure to high-severity events;
- manages certain insurance-related activities relating to insurance strategies established to mitigate operational risk;
- examines operational risks arising in connection with the development of, changes in or discontinuance of products, policies or systems;
- uses a detailed business continuity plan covering all of its operations and locations to prepare against unexpected events, including an alternate back-up site for use in disaster events as well as annual full-scale testing of such site;
- refines bank-wide operational risk policies and procedures;
- provides appropriate training and support to business line operational risk managers; and
- reports overall operational risk status to our senior management.

While Kookmin Bank’s Risk Management Department advises relevant business units with respect to the review of and suggested improvements on related operational processes and procedures, each of Kookmin Bank’s relevant business units has primary responsibility for the management of its own operational risk. In addition, the Operational Risk Unit, which is part of Kookmin Bank’s Risk Management Department, monitors bank-wide operational risk. Kookmin Bank also has business line operational risk managers in all of its subsidiaries, departments and branches who periodically conduct CSAs and monitor KRIs. For example, Kookmin Bank has developed KRIs relating to customer data protection, which are applied and monitored at all domestic branches and offices. In addition, in order to strengthen risk management of its overseas operations, Kookmin Bank designates expert auditors for overseas branches and conducts internal audits designed especially to check key risks identified for each overseas branch. Kookmin Bank has also established a risk CSA system for overseas branches, pursuant to which all employees (including locally hired staff) of such branches are required to perform a risk CSA on a quarterly basis. Furthermore, Kookmin Bank regularly monitors operational risks related to new businesses as well as existing operating processes and seeks to develop appropriate new KRIs and risk CSA measures on an ongoing basis. Through such methods, Kookmin Bank is able to ensure proper monitoring and measurement of operational risk in each of its business groups and overseas operations.

Internal Control

To monitor and control operational risks, we maintain a system of comprehensive policies and have put in place a control framework designed to provide a stable and well-managed operational environment throughout our organization. We have in place a prescribed leave policy for employees in certain high-risk categories to safeguard against fraud and to check for weaknesses in internal controls. In addition, we maintain an external whistleblower “ombudsman” channel to encourage whistleblowing and voluntary reporting of fraudulent behavior.

Each of our subsidiaries establishes its own internal control system in accordance with the group-level internal control principles. Our Compliance Supporting Department is responsible for monitoring and advising our subsidiaries regarding their internal control systems. Our Audit Committee, which consists of four non-executive directors, is an independent authority that evaluates the effectiveness and efficiency of our group-wide internal control systems and business processes and monitors our subsidiaries’ compliance with such

systems and processes, as well as reviews the reliability of our financial statements to secure the transparency and stability of our management (including through the activities of our independent auditors). In particular, we have established group-wide internal guidelines with respect to our subsidiaries' reporting requirements. Our subsidiaries review their operations and their level of compliance with internal control systems and business processes on a periodic basis and, as part of this process, they are required to report any problems discovered and any remedial actions taken to our chief compliance officer, who is responsible for reporting to our Audit Committee. Based on the results of these reports, or on an ad hoc basis in response to any problem or potential problem that it identifies, the Audit Committee may direct a subsidiary to conduct an audit of its operations or, if it chooses to do so, conduct its own audit of those operations. The Audit Committee interacts on a regular basis with our Audit Department, Compliance Supporting Department and our independent auditors. In carrying out these duties, the Audit Committee ultimately protects our property for the benefit of our shareholders, investors and customers by independently monitoring our management.

Our Audit Department supports our Audit Committee in monitoring our accounting and business operations and overseeing the management of our subsidiaries' internal control systems by performing the following activities:

- general audits, which include full-scale audits of the overall operations performed according to an annual audit plan, and sectional audits of selected operations; and
- special audits of troubled or weak operations, which are performed when our Audit Committee or executive officer responsible for audits deems it necessary or pursuant to requests by our board, executive officers or supervisory authorities, such as the Financial Supervisory Service.

The Financial Supervisory Service periodically conducts a general examination of our operations. It also performs specific audits on particular aspects of our operations, such as risk management, credit monitoring and liquidity, as the need arises. In June 2019, the Financial Supervisory Service conducted a comprehensive annual inspection of overall operations at our company, Kookmin Bank and KB Securities, the results of which are currently pending.

Kookmin Bank's Audit Department is the execution body for its audit committee and supports Kookmin Bank's management objectives by auditing the operations of its branches using a risk analysis system and reviewing the operations of its headquarters and subsidiaries through the use of "risk-based audit" in accordance with the "business measurement process" audit methodology, which requires that the Audit Department evaluate the risk and process of its business units and concentrate its audit capacity with respect to high risk areas.

As a result of recent regulatory trends, Kookmin Bank's Audit Department is continuing its efforts to establish an advanced audit system and value-added internal audit by introducing risk-based audit techniques.

Our Compliance Supporting Department operates a compliance system to ensure that all of our employees comply with the relevant laws and regulations. This system's main function is to establish and manage our compliance program, educate employees and management and improve our internal control process.

Legal Risk

We consider legal risk as a part of our operational risk. The uncertainty of the enforceability of the obligations of our customers and counterparties creates legal risk. Changes in laws and regulations could also adversely affect us. Legal risk is higher in new areas of business where the law is often untested in the courts, although legal risk can also increase in our traditional business to the extent that the legal and regulatory landscape in Korea is changing and many new laws and regulations governing the financial industry remain untested. Our Compliance Supporting Department seeks to minimize legal risk by using stringent legal documentation, employing procedures designed to ensure that transactions are properly authorized and consulting legal advisers.

IT System Operational Risk

The integrity of our IT systems, and their ability to withstand potential catastrophic events, are crucial to our continuing operations. Accordingly, we are continuing to strengthen our disaster recovery capabilities. In order to minimize operational risks relating to our IT systems, we have implemented a multi-CPU system that runs multiple CPUs simultaneously on-site and ensures system continuity in case any of the CPUs fails. This system backs up our data systems at an off-site location on a real-time basis to ensure that our operations can be carried out normally and without material interruption in the event of CPU failure. Also, in order to protect our Internet banking services from system failures and cyber attacks, we process our Internet transactions through three separate data processing centers.

We currently test our disaster recovery systems on a quarterly basis, with the comprehensive testing including our branches and the main IT center's disaster recovery system. Our disaster recovery capabilities involve a number of operations other than our core banking operations, including credit card and call center transactions. Internally, our System Operations Department monitors all of our computerized network processes and IT systems. This department monitors and reports on any unusual delays or irregularities reported by our branches. In addition, Kookmin Bank's Information Security Department is responsible for the daily monitoring of its information security system. Our business operations regularly conduct IT security inspections with respect to such operations and have implemented measures to identify and respond collectively to security breach attempts, such as hacking attempts.

In particular, at Kookmin Bank, we have taken steps to establish a comprehensive security system aimed at detecting and responding to internal and external threats to its IT system and have implemented network segregation on the computers of all employees so that Intranet and Extranet functions are segregated. We have endeavored to enhance protection of customer data by using personal identification numbers internally generated and managed by Kookmin Bank in all customer financial transaction, in lieu of the resident registration numbers of its customers, and by amending forms and templates to minimize collection of potentially sensitive customer data. Kookmin Bank's chief information security officer is responsible for ensuring protection of information assets and technologies and reducing IT risks.

At KB Kookmin Card, we have taken steps to strengthen its information security infrastructure by implementing a solution to prevent attacks on its website and a security system to prevent unauthorized access to local networks and information, as well as an anti-photography system to prevent information leaks via photographs taken with smartphones. As part of strengthening its operational processes and procedures for customer information protection, KB Kookmin Card prohibits use of portable devices within the premises, requires managerial approval for all documents sent externally, including via email, and continuously monitors compliance with data protection policies, including through spot inspection of each department.

In 2009, Kookmin Bank obtained ISO 27001 certification, which relates to information security. In 2011, Kookmin Bank also obtained ISO 20000 certification, which relates to IT service management, and BS 25999 certification, which relates to business continuity management. Kookmin Bank is the first Korean bank to have obtained all three such international certifications. In addition, between 2013 and 2019, we, Kookmin Bank, KB Securities, KB Insurance, KB Kookmin Card and KB Life Insurance obtained ISMS certification, which relates to information security management. In 2017, KB Kookmin Card obtained PCI DSS certification, which relates to protection of credit card data.

We implement various year-round education programs and training sessions designed to raise the information security awareness of both management and employees.

Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Fees and Charges

Under the terms of the deposit agreement, as a holder of our ADSs, you are required to pay the following service fees to the depositary:

Services	Fees
Issuance of ADSs	Up to \$5.00 per 100 ADSs (or portion thereof) issued
Delivery of deposited shares against surrender of ADSs	Up to \$5.00 per 100 ADSs (or portion thereof) surrendered
Distribution of cash dividends or other cash distributions	Up to \$0.02 per ADS held
Transfer of ADSs, combination and split-up of American depositary receipts or interchange of certificated and uncertificated ADSs	Up to \$1.50 per American depositary receipt transferred
Distribution or sale of securities pursuant to stock dividends, free stock distributions, exercise of rights or any other non-cash distributions	A fee equivalent to the fee that would be payable if securities distributed or sold, as the case may be, had been shares and such shares had been deposited for issuance of ADSs
Depositary Services	Up to \$0.02 per ADS (or portion thereof) held on the applicable record date(s) established by the depositary

As a holder of our ADSs, you are also responsible for paying certain fees and expenses incurred by the depositary and certain taxes and governmental charges such as:

- Fees for the transfer and registration of shares charged by the registrar and transfer agent for the shares in Korea (*i.e.*, upon deposit and withdrawal of shares).
- Expenses incurred for converting foreign currency into U.S. dollars.
- Expenses for cable, telex and fax transmissions and for delivery of securities.
- Taxes and duties upon the transfer of securities (*i.e.*, when shares are deposited or withdrawn from deposit).
- Fees and expenses incurred in connection with the delivery or servicing of shares on deposit or other deposited securities.

Depositary fees payable upon the issuance and surrender of ADSs are typically paid to the depositary by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary and by the brokers (on behalf of their clients) delivering the ADSs to the depositary for surrender. The brokers in turn charge these fees to their clients. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary to the holders of record of ADSs as of the applicable ADS record date.

The depositary fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (*i.e.*, stock dividend, rights), the depositary charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depositary sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via the Depositary Trust Company, or DTC), the depositary generally collects its fees through the systems provided by

DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depository.

In the event of refusal to pay the depository fees, the depository may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depository fees from any distribution to be made to such holder of ADSs.

Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the depository. You will receive prior notice of such changes.

Fees and Payments from the Depository to Us

In 2019, we received the following payments from the depository:

Reimbursement of listing fees:	\$ 68,000
Reimbursement of SEC filing fees:	\$ 27,801
Reimbursement of expenses related to our investor relations activities (investor conferences and investor relations agency fees, etc.) and legal fees (expenses related to the preparation of our Form 20-F for fiscal year 2018):	\$420,485

In addition, as part of its service to us, the depository waives its fees for the standard costs and operating expenses associated with the administration of the ADS facility.

Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

Item 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We have evaluated, with the participation of our chief executive officer and chief finance officer, the effectiveness of our disclosure controls and procedures as of December 31, 2019. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief finance officer concluded that our disclosure controls and procedures as of December 31, 2019 were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief finance officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the

supervision and with the participation of our management, including our chief executive officer and chief finance officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS as issued by the IASB. Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS as issued by the IASB, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. 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 evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2019.

The effectiveness of our internal control over financial reporting as of December 31, 2019 has been audited by Samil PricewaterhouseCoopers, an independent registered public accounting firm, as stated in its report included herein which expressed an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2019.

Attestation Report of the Registered Public Accounting Firm

The attestation report of our independent registered public accounting firm is included in Item 18 of this Form 20-F.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16. [RESERVED]

Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Kyung Ho Kim and Gyutaeg Oh, our non-executive directors and members of our Audit Committee, qualify as “audit committee financial experts” and are independent within the meaning of this Item 16A.

Item 16B. CODE OF ETHICS

We have adopted a code of ethics, as defined in Item 16B of Form 20-F under the Exchange Act. Our code of ethics applies to our chief executive officer and chief finance officer, as well as to our non-executive directors, non-standing directors and other officers and employees. Our code of ethics is available on our website at <https://www.kbfg.com/Eng/about/ethics.htm>. If we amend the provisions of our code of ethics that apply to our chief executive officer and chief finance officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit and Non-audit Fees

The following table sets forth the fees billed to us by independent registered public accounting firm Samil PricewaterhouseCoopers during the fiscal years ended December 31, 2018 and 2019:

	Year Ended December 31,	
	2018	2019
	(in millions of Won)	
Audit fees	₩ 8,298	₩ 9,787
Audit-related fees	62	—
Tax fees	86	7
Total fees	₩ 8,446	₩ 9,794

Audit fees in the above table are the aggregate fees billed by Samil PricewaterhouseCoopers in connection with:

- the audits of our annual financial statements and the review of our interim financial statements;
- the audits of our special purpose entities in connection with the Financial Investment Services and Capital Markets Act; and
- our financial debenture offering services.

Audit-related fees in the above table are fees billed by Samil PricewaterhouseCoopers in connection with due diligence services rendered in the ordinary course of our business.

Tax fees in the above table are fees billed by Samil PricewaterhouseCoopers in connection with tax filing services for funds operated by KB Asset Management Co., Ltd.

Audit Committee Pre-Approval Policies and Procedures

Our Audit Committee pre-approves the engagement of our independent auditors for audit services with respect to our financial statements. Our Audit Committee has implemented a policy regarding pre-approval of certain other services provided by our independent auditors to our subsidiaries that the Audit Committee has deemed as not affecting their independence. Under this policy, pre-approvals for the following services to our subsidiaries have been granted by our Audit Committee to each of our subsidiaries' audit committees: (i) services related to the audit of financial statements prepared in accordance with IFRS as adopted by Korea and internal controls under Korean laws and regulations; (ii) general tax advisory services; (iii) issuance of comfort letters in connection with offering of securities; and (iv) educational services provided to employees.

Any other audit or permitted non-audit service must be pre-approved by the Audit Committee on a case-by-case basis. Our Audit Committee did not pre-approve any non-audit services under the *de minimis* exception of Rule 2.01(c)(7)(i)(C) of Regulation S-X as promulgated by the Securities and Exchange Commission.

Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

Item 16E. PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

The following table sets forth information regarding purchases by us of our common shares during the period covered by this annual report.

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (as of end of period)
January 1 to January 31, 2019	955,362	₩46,120	955,362	\$ 193,501,288
February 1 to February 28, 2019	850,000	46,222	850,000	159,498,636
March 1 to March 31, 2019	1,000,000	42,783	1,000,000	122,471,605
April 1 to April 30, 2019	1,100,000	45,391	1,100,000	79,259,722
May 1 to May 31, 2019	1,050,000	46,088	1,050,000	37,377,803
June 1 to June 30, 2019	961,600	44,907	961,600	4,909
July 1 to July 31, 2019	—	—	—	—
August 1 to August 31, 2019	—	—	—	—
September 1 to September 30, 2019	—	—	—	—
October 1 to October 31, 2019	—	—	—	—
November 1 to November 30, 2019	—	—	—	—
December 1 to December 31, 2019	—	—	—	—
Total	<u>5,916,962</u>	<u>₩45,232</u>	<u>5,916,962</u>	<u>\$ 0⁽²⁾</u>

⁽¹⁾ Comprises common shares that were purchased through a broker in a series of open-market transactions in Korea in the periods indicated above, pursuant to a trust agreement for the acquisition of treasury shares dated December 5, 2018, which expired on December 4, 2019.

⁽²⁾ We do not intend to make further purchases of common shares under the trust agreement, which expired as described above.

Other than as described above, neither we nor any “affiliated purchaser,” as defined in Rule 10b-18(a)(3) of the Exchange Act, purchased any of our equity securities during the period covered by this annual report.

Item 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

On December 7, 2019, our Audit Committee approved the appointment of KPMG Samjong Accounting Corp., or KPMG, as our principal accountant to audit our financial statements prepared in accordance with IFRS as issued by the IASB for the fiscal years ending December 31, 2020, 2021 and 2022 and the dismissal of Samil PricewaterhouseCoopers, our independent registered public accountants. KPMG was appointed on December 13, 2019, with such appointment to be effective from January 1, 2020, and Samil PricewaterhouseCoopers will be dismissed effective upon completion of its audit of our financial statements as of and for the year ended December 31, 2019, and the issuance of its report thereon.

The decision of our Audit Committee to dismiss Samil PricewaterhouseCoopers, and to appoint KPMG, as our principal accountant to audit our financial statements prepared in accordance with IFRS as issued by the IASB, was largely driven by the Securities and Futures Commission’s designation of KPMG as our external auditor in November 2019 pursuant to the requirement of the amended Act on External Audit of Stock Companies for the Securities and Futures Commission for all publicly listed Korean companies to appoint an external auditor designated by the Securities and Futures Commission, which became effective in November 2018. The Act on External Audit of Stock Companies, as amended, requires that a corporation that was audited by an external auditor of its choice for six consecutive years change its external auditor to one designated by the Securities and Futures Commission for a period of three consecutive years.

Samil PricewaterhouseCoopers’ reports on our consolidated financial statements prepared in accordance with IFRS as issued by the IASB for each of the fiscal years ended December 31, 2019 and 2018 did not contain

an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. Furthermore, during the fiscal years ended December 31, 2019 and 2018 and in the subsequent interim period preceding Samil PricewaterhouseCoopers' dismissal or the Pre-Engagement Period, there were no disagreements with Samil PricewaterhouseCoopers on any matter of accounting principles or practice, financial statement disclosure or auditing scope or procedure that if not resolved to the satisfaction of Samil PricewaterhouseCoopers, would have caused Samil PricewaterhouseCoopers to make reference to the subject matter of the disagreement in its reports. In addition, during the Pre-Engagement Period, there were no "reportable events" requiring disclosure pursuant to Item 16F(a)(1)(v) of Form 20-F.

We provided a copy of the disclosure in this Item 16F to Samil PricewaterhouseCoopers and requested that Samil PricewaterhouseCoopers furnish us with a letter addressed to the Commission stating whether it agrees with such disclosure, and if it does not agree, stating the respects in which it does not agree. A copy of Samil PricewaterhouseCoopers' letter dated April 24, 2020 is filed as Exhibit 15.1 to this annual report on Form 20-F for the fiscal year ended December 31, 2019.

During the Pre-Engagement Period, we consulted KPMG on the application of IFRS 16 *Leases* on our financial statements. The results of such consultations are reflected in Notes 2, 3 and 44 of the notes to our consolidated financial statements included in this annual report. We did not consult Samil PricewaterhouseCoopers on this subject. During the Pre-Engagement Period, neither we nor anyone acting on our behalf consulted with KPMG regarding any matter that was either the subject of a disagreement, as that term is defined in Item 16F(a)(1)(iv) of Form 20-F (and the related instructions thereto), or a reportable event as described in Item 16F(a)(1)(v) of Form 20-F.

Item 16G. CORPORATE GOVERNANCE

Differences in Corporate Governance Practices

Pursuant to the rules of the New York Stock Exchange applicable to foreign private issuers like us that are listed on the New York Stock Exchange, we are required to disclose significant differences between the New York Stock Exchange's corporate governance standards and those that we follow under Korean law and in accordance with our own internal procedures. The following is a summary of such significant differences:

NYSE Corporate Governance Standards	KB Financial Group
<p>Director Independence Listed companies must have a majority of independent directors.</p>	<p>The majority of our board of directors is independent (as defined in accordance with the New York Stock Exchange's standards), as seven out of nine directors are non-executive directors.</p>
<p>Executive Session Non-management directors must meet in regularly scheduled executive sessions without management. Independent directors should meet alone in an executive session at least once a year.</p>	<p>Our non-executive directors hold executive sessions as needed in accordance with the Regulation of the Board of Directors.</p>
<p>Nomination/Corporate Governance Committee A nomination/corporate governance committee of independent directors is required. The committee must have a charter that addresses the purpose, responsibilities (including development of corporate governance guidelines) and annual performance evaluation of the committee.</p>	<p>We maintain a Non-executive Director Nominating Committee composed of four non-executive directors.</p> <p>We maintain a CEO Nominating Committee composed of all seven of our non-executive directors.</p>

Compensation Committee

A compensation committee of independent directors is required. The committee must have a charter that addresses the purpose, responsibilities and annual performance evaluation of the committee. The charter must be made available on the company's website. In addition, in accordance with the U.S. Securities and Exchange Commission rules adopted pursuant to Section 952 of the Dodd-Frank Act, the New York Stock Exchange listing standards were amended to expand the factors relevant in determining whether a committee member has a relationship with the company that will materially affect that member's duties to the compensation committee.

Additionally, the committee may obtain or retain the advice of a compensation adviser only after taking into consideration all factors relevant to determining that adviser's independence from management.

Audit Committee

Listed companies must have an audit committee that satisfies the independence and other requirements of Rule 10A-3 under the Exchange Act. All members must be independent. The committee must have a charter addressing the committee's purpose, an annual performance evaluation of the committee, and the duties and responsibilities of the committee. The charter must be made available on the company's website.

Audit Committee Additional Requirements

Listed companies must have an audit committee that is composed of at least three directors.

Shareholder Approval of Equity Compensation Plan

Listed companies must allow its shareholders to exercise their voting rights with respect to any material revision to the company's equity compensation plan.

Corporate Governance Guidelines

Listed companies must adopt and disclose corporate governance guidelines.

We maintain an Evaluation and Compensation Committee composed of four non-executive directors.

We maintain an Audit Committee composed of four non-executive directors. Accordingly, we are in compliance with Rule 10A-3 under the Exchange Act.

Our Audit Committee has four members, as described above.

We currently have two equity compensation plans: (i) performance share agreements with certain of our directors and executive officers and (ii) an employee stock ownership plan, or ESOP. Matters related to the performance share agreements or ESOP are not subject to shareholders' approval under Korean law.

Our Articles of Incorporation provide that our stockholders may, by special resolution, grant stock options to officers, directors and employees. All material matters related to stock options are provided in our Articles of Incorporation, and any amendments to the Articles of Incorporation are subject to shareholders' approval.

We have adopted corporate governance standards, the Korean-language version of which is available on our website.

Item 16H. MINE SAFETY DISCLOSURE

Not applicable.

Item 17. FINANCIAL STATEMENTS

Not Applicable.

Item 18. FINANCIAL STATEMENTS

Reference is made to Item 19(a) for a list of all financial statements filed as part of this annual report.

Item 19. EXHIBITS

(a) List of Financial Statements:

	<u>Page</u>
Audited consolidated financial statements of KB Financial Group Inc. and subsidiaries, prepared in accordance with IFRS as issued by the IASB	
Report of independent registered public accounting firm	F-1
Consolidated statements of financial position as of December 31, 2018 and 2019	F-4
Consolidated statements of comprehensive income for the years ended December 31, 2017, 2018 and 2019	F-5
Consolidated statements of changes in equity for the years ended December 31, 2017, 2018 and 2019	F-8
Consolidated statements of cash flows for the years ended December 31, 2017, 2018 and 2019	F-12
Notes to consolidated financial statements	F-14

(b) Exhibits

Pursuant to the rules and regulations of the U.S. Securities and Exchange Commission, KB Financial Group has filed certain agreements as exhibits to this Annual Report on Form 20-F. These agreements may contain representations and warranties made by the parties. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (i) may be intended not as statements of fact, but rather as a way of allocating the risk to one of the parties to such agreements if those statements turn out to be inaccurate, (ii) may have been qualified by disclosures that were made to such other party or parties and that either have been reflected in the company's filings or are not required to be disclosed in those filings, (iii) may apply materiality standards different from what may be viewed as material to investors and (iv) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments. Accordingly, these representations and warranties may not describe KB Financial Group's actual state of affairs at the date of this annual report.

Number	Description
1.1	Articles of Incorporation of KB Financial Group (translation in English).
2.1*	Form of Share Certificate of KB Financial Group's common stock, par value ₩5,000 per share (translation in English).
2.2**	Form of Fifth Amended and Restated Deposit Agreement among KB Financial Group, JPMorgan Chase Bank, N.A., as depositary, and all owners and holders from time to time of American depositary receipts issued thereunder, evidencing American depositary shares, including the form of American depositary receipt.
2.3***	Description of KB Financial Group's Capital Stock.
2.4	Description of KB Financial Group's American Depositary Shares.
8.1****	List of subsidiaries of KB Financial Group.
11.1*****	Code of Ethics.
12.1	Section 302 certifications.
13.1	Section 906 certifications.
15.1	Letter of Samil PricewaterhouseCoopers dated April 24, 2020.
101	Interactive Data Files (XBRL-Related Documents).

* Incorporated by reference to the registrant's filing on Form 20-F (No. 000-53445), filed on June 15, 2009 (<https://www.sec.gov/Archives/edgar/data/1445930/000095012309013901/h03411exv2w1.htm>).

** Incorporated by reference to the registrant's filing on Form F-6 (No. 333—208008), filed on November 13, 2015 (https://www.sec.gov/Archives/edgar/data/1445930/000119380515001876/e614274_ex99-a.htm).

*** Incorporated by reference to "Item 10.B. Memorandum and Articles of Association—Description of Capital Stock" of this annual report.

**** Incorporated by reference to Note 40 of the consolidated financial statements of the registrant included in this annual report.

***** Incorporated by reference to the registrant's filing on Form 20-F (No. 000-53445), filed on April 28, 2016 (<https://www.sec.gov/Archives/edgar/data/1445930/000119312516561071/d181570dex111.htm>).

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

KB FINANCIAL GROUP INC.
(Registrant)

/s/ Jong Kyoo Yoon _____

(Signature)

Jong Kyoo Yoon
Chairman and Chief Executive Officer _____

(Name and Title)

Date: April 24, 2020

Report of Independent Registered Public Accounting Firm

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of financial position of KB Financial Group Inc. and its subsidiaries (the “Company”) as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for each of the three years in the period ended December 31, 2019, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Provisions for Credit Losses

As described in Notes 4.2, 10, and 11 to the consolidated financial statements, loans measured at amortized cost subject to individual or collective assessments were ₩342,092,076 million, with allowances for loan losses of ₩2,408,016 million as of December 31, 2019. In addition, as described in Notes 4.2, 23 and 39 to the consolidated financial statements, off-balance sheet items exposed to credit risk were ₩163,972,499 million, with provision for unused commitments and guarantees of ₩291,970 million as of December 31, 2019. Provisions for credit losses for individually assessed loans are dependent upon cash flow projection. For collectively assessed loans, allowances are driven by various assumptions and methodologies. Significant uncertainty exists in differences between expected credit losses and actual losses. Expected credit losses are also driven by management's judgment on determination of significant changes in credit risk since initial recognition, probability of default, loss given default, and forward-looking information.

The principal considerations for our determination that performing procedures relating to provisions for credit losses is a critical audit matter are (i) significant judgment and estimation by management in cash flow projection for individually assessed portfolio and (ii) measurement uncertainties arising from various assumptions and methodologies applicable to collectively assessed items including determination of significant increase in credit risk, probability of default, loss given default, and forward-looking information. These in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence related to management's measurement models. In addition, the audit effort involved the use of professionals with specialized skill and knowledge to assist in performing these procedures and evaluating the audit evidence obtained from these procedures.

Addressing the matter involved performing the following procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included evaluation of management's processes and controls relating to the assessment of expected credit losses based on estimating future cash flows to assess reasonableness of key assumptions in the projection. These procedures also included testing management's processes and controls relating to the assessment of expected credit losses on a collective basis. We also evaluated management's methods and models regarding determination of significant increase in credit risk, tested completeness, accuracy and relevance of the data to evaluate reasonableness of significant management assumptions such as probability of default, loss given default, and forward-looking information with the assistance by professionals with specialized skill and knowledge.

Valuation of Over-The-Counter Derivatives

As described in Notes 6, 12 and 19 to the consolidated financial statements, over-the-counter derivatives of KB Securities Co., Ltd. subject to fair value measurement were ₩14,444,557 million as of December 31, 2019, including financial liabilities designated as at fair value through profit or loss related to structured securities and financial assets at fair value through profit or loss. Valuation of such financial instruments requires broad judgment on liquidity, concentration, uncertainty in market factors and assumptions in price determination and other risks. Diverse valuation techniques are used from generally accepted market valuation models to internally developed valuation models that incorporate various types of assumptions and variables.

The principal considerations for our determination that performing procedures relating to valuation of over-the-counter derivatives is a critical audit matter are (i) there was a significant management judgment in determining valuation models, assumptions and inputs to estimate fair value, which in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and in evaluating audit evidence obtained related to the valuation of these derivatives, and (ii) the audit effort involved the use of professionals with specialized skill and knowledge to assist in performing these procedures and evaluating the audit evidence obtained from these procedures.

Addressing the matter involved performing the following procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing effectiveness of management's controls relating to (i) accuracy and completeness of key inputs such as underlying transaction data including notional amount, interest rate, and maturity date used in management's determination of estimated fair value; and (ii) management's periodic evaluation of the internally developed valuation models. These procedures also included, among others; (i) testing transaction data used in the valuation by examining supporting evidence including contracts and trade confirmations; and (ii) the involvement of professionals with specialized skills and knowledge to assist in developing an independent estimate of fair value.

/s/ Samil PricewaterhouseCoopers
Seoul, Korea
April 24, 2020

We have served as the Company's auditor since 2008.

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018 AND 2019

	<u>Dec. 31 2018</u>	<u>Dec. 31 2019¹</u>	<u>2019¹</u>
	(In millions of Korean won)		Translation into U.S. dollars (Note 3) (In thousands)
ASSETS			
Cash and due from financial institutions	₩ 20,274,490	₩ 20,837,878	US\$ 18,034,270
Financial assets at fair value through profit or loss	50,987,847	53,549,086	46,344,387
Derivative financial assets	2,025,962	3,190,673	2,761,388
Loans at amortized cost	319,201,603	339,684,059	293,981,669
Financial investments	61,665,094	71,782,606	62,124,700
Investments in associates and joint ventures	504,932	598,240	517,751
Property and equipment	4,272,127	5,067,377	4,385,593
Investment property	2,119,811	2,827,988	2,447,500
Intangible assets	2,755,783	2,737,813	2,369,457
Net defined benefit assets	—	946	819
Current income tax assets	10,004	19,095	16,526
Deferred income tax assets	4,158	3,597	3,113
Assets held for sale	16,952	23,151	20,036
Other assets	15,749,535	18,215,608	15,764,811
Total assets	<u>479,588,298</u>	<u>518,538,117</u>	<u>448,772,020</u>
LIABILITIES			
Financial liabilities at fair value through profit and loss	15,326,859	15,368,153	13,300,463
Derivative financial liabilities	2,901,247	3,007,341	2,602,722
Deposits	276,770,449	305,592,771	264,477,153
Debts	33,004,834	37,818,860	32,730,566
Debentures	53,278,697	50,935,583	44,082,515
Provisions	525,859	527,929	456,899
Net defined benefit liabilities	262,213	253,989	219,816
Current income tax liabilities	698,634	432,431	374,250
Deferred income tax liabilities	492,534	777,793	673,146
Insurance contract liabilities	33,412,949	34,966,683	30,262,132
Other liabilities	27,200,996	29,737,259	25,736,295
Total liabilities	<u>443,875,271</u>	<u>479,418,792</u>	<u>414,915,957</u>
TOTAL EQUITY			
Share capital	2,090,558	2,090,558	1,809,286
Hybrid securities	—	399,205	345,495
Capital surplus	17,121,660	17,122,777	14,819,013
Accumulated other comprehensive income	177,806	348,021	301,197
Retained earnings	17,282,441	19,709,545	17,057,748
Treasury shares	(968,549)	(1,136,188)	(983,321)
Equity attributable to shareholders of the parent company	35,703,916	38,533,918	33,349,418
Non-controlling interests	9,111	585,407	506,644
Total equity	<u>35,713,027</u>	<u>39,119,325</u>	<u>33,856,062</u>
Total liabilities and equity	<u>₩479,588,298</u>	<u>₩518,538,117</u>	<u>US\$448,772,019</u>

¹ The consolidated statement of financial position as of December 31, 2019 is prepared in accordance with IFRS 16, and the comparatives as of December 31, 2018 has not been restated.

The above consolidated statements of financial position should be read in conjunction with the accompanying notes.

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 and 2019

	2017	2018 ¹	2019 ^{1,2}	2019 ^{1,2}
	(In millions of Korean won, except per share amounts)			Translation into U.S. dollars (Note 3) (In thousands, except per share amounts)
Interest income	₩11,919,057	₩ 13,734,569	₩ 14,639,187	US\$ 12,669,575
Interest income from financial instruments at fair value through other comprehensive income and amortized cost	—	12,986,209	13,935,124	12,060,239
Interest income from financial instruments at fair value through profit or loss	—	748,360	704,063	609,336
Interest income from loans and receivables and investments	11,382,452	—	—	—
Interest income from financial instruments at fair value through profit or loss (under IAS 39)	536,605	—	—	—
Interest expense	(3,672,443)	(4,829,641)	(5,442,400)	(4,710,159)
Net interest income	8,246,614	8,904,928	9,196,787	7,959,416
Fee and commission income	3,988,250	3,717,720	3,879,247	3,357,319
Fee and commission expense	(1,938,226)	(1,474,344)	(1,524,243)	(1,319,166)
Net fee and commission income	2,050,024	2,243,376	2,355,004	2,038,153
Insurance income	8,970,992	11,975,070	12,317,182	10,659,981
Insurance expense	(8,377,282)	(11,484,954)	(12,017,670)	(10,400,767)
Net insurance income	593,710	490,116	299,512	259,214
Net gains on financial assets/liabilities at fair value through profit or loss before applying overlay approach	—	350,490	912,187	789,458
Net gains(losses) on overlay adjustment	—	813	(268,315)	(232,215)
Net gains on financial assets/liabilities at fair value through profit or loss	—	351,303	643,872	557,243
Net gains on financial assets/liabilities at fair value through profit or loss (under IAS 39)	203,724	—	—	—
Net other operating expenses	(901,890)	(1,130,036)	(1,063,324)	(920,260)
General and administrative expenses	(5,628,664)	(5,918,512)	(6,271,017)	(5,427,290)
Operating profit before provision for credit losses	4,563,518	4,941,175	5,160,834	4,466,476
Provision for credit losses	(548,244)	(673,694)	(670,185)	(580,016)
Net operating income	4,015,274	4,267,481	4,490,649	3,886,460

(Continued)

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 and 2019

	2017	2018 ¹	2019 ^{1,2}	2019 ^{1,2}
	(In millions of Korean won, except per share amounts)			Translation into U.S. dollars (Note 3) (In thousands, except per share amounts)
Share of profit of associates and joint ventures	84,274	24,260	16,451	14,238
Net other non-operating income	38,876	9,791	26,886	23,268
Net non-operating income	<u>123,150</u>	<u>34,051</u>	<u>43,337</u>	<u>37,506</u>
Profit before income tax	<u>4,138,424</u>	<u>4,301,532</u>	<u>4,533,986</u>	<u>3,923,966</u>
Income tax expense	(794,963)	(1,239,586)	(1,220,787)	(1,056,537)
Profit for the year	<u>₩ 3,343,461</u>	<u>₩ 3,061,946</u>	<u>₩ 3,313,199</u>	<u>US\$ 2,867,429</u>
Items that will not be reclassified to profit or loss				
Remeasurements of net defined benefit liabilities	₩ 22,605	₩ (138,016)	₩ (55,827)	US\$ (48,316)
Share of other comprehensive income of associates and joint ventures	(145)	(74)	(105)	(91)
Revaluation losses on equity instruments at fair value through other comprehensive income	—	(31,169)	(17,329)	(14,997)
Fair value changes on financial liabilities designated at fair value due to own credit risk	—	1,484	(11,372)	(9,842)
	<u>22,460</u>	<u>(167,775)</u>	<u>(84,633)</u>	<u>(73,246)</u>
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	(110,037)	48,820	37,861	32,767
Net gains on debt instruments at fair value through other comprehensive income	—	119,182	35,490	30,715
Valuation gains on financial investments	89,117	—	—	—
Shares of other comprehensive income of associates and joint ventures	100,880	(3,659)	7,800	6,751
Cash flow hedges	20,959	(9,038)	(33,182)	(28,718)
Gain(losses) on hedges of a net investment in a foreign operation	26,614	(27,134)	(8,900)	(7,703)
Other comprehensive income of separate account	(13,767)	28,709	3,364	2,911
Net gains on overlay adjustment	—	413	194,223	168,092
	<u>113,766</u>	<u>157,293</u>	<u>236,656</u>	<u>204,815</u>

(Continued)

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 and 2019

	<u>2017</u>	<u>2018¹</u>	<u>2019^{1,2}</u>	<u>2019^{1,2}</u> Translation into U.S. dollars (Note 3) (In thousands, except per share amounts)
	(In millions of Korean won, except per share amounts)			
Other comprehensive income(loss) for the year, net of tax	136,226	(10,482)	152,023	131,569
Total comprehensive income for the year ..	<u>3,479,687</u>	<u>3,051,464</u>	<u>3,465,222</u>	<u>2,998,998</u>
Profit attributable to:				
Shareholders of the parent company	3,311,438	3,061,191	3,311,828	2,866,242
Non-controlling interests	32,023	755	1,371	1,187
	<u>3,343,461</u>	<u>3,061,946</u>	<u>3,313,199</u>	<u>2,867,429</u>
Total comprehensive income for the year attributable to:				
Shareholders of the parent company	3,445,285	3,050,805	3,463,567	2,997,565
Non-controlling interests	34,402	659	1,655	1,433
	<u>₩ 3,479,687</u>	<u>₩ 3,051,464</u>	<u>₩ 3,465,222</u>	<u>US\$ 2,998,998</u>
Earnings per share				
Basic earnings per share	₩ 8,305	₩ 7,721	₩ 8,451	US\$ 7.31
Diluted earnings per share	8,257	7,676	8,389	7.26

¹ The consolidated statements of comprehensive income for the years ended December 31, 2018 and 2019 are prepared in accordance with IFRS 9 and IFRS 15, and the comparatives for the year ended December 31, 2017 has not been restated.

² The consolidated statement of comprehensive income for the year ended December 31, 2019 is prepared in accordance with IFRS 16, and the comparatives for the years ended December 31, 2017 and 2018 has not been restated.

The above consolidated statements of comprehensive income should be read in conjunction with the accompanying notes.

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 and 2019

Equity attributable to shareholders of the parent company									
	Share Capital	Capital surplus	Accumulated other comprehensive income	Retained earnings	Treasury shares	Non-controlling interests	Total equity		
(In millions of Korean won)									
Balance at January 1,									
2017	₩ 2,090,558	₩ 16,994,902	₩ 405,329	₩ 12,229,228	₩ (721,973)	₩ 263,359	₩	₩	₩ 31,261,403
Comprehensive income									
Profit for the year	—	—	—	3,311,438	—	32,023	—	—	3,343,461
Remeasurements of net defined benefit liabilities	—	—	22,685	—	—	(80)	—	—	22,605
Exchange differences on translating foreign operations	—	—	(109,727)	—	—	(310)	—	—	(110,037)
Valuation gains on financial investments	—	—	86,176	—	—	2,941	—	—	89,117
Shares of other comprehensive income of associates and joint ventures	—	—	100,735	—	—	—	—	—	100,735
Cash flow hedges	—	—	21,055	—	—	(96)	—	—	20,959
Losses on hedges of a net investment in a foreign operation	—	—	26,614	—	—	—	—	—	26,614
Other comprehensive income of separate account	—	—	(13,692)	—	—	(75)	—	—	(13,767)
Transfer to other accounts	—	—	(1,507)	1,507	—	—	—	—	—
Total comprehensive income	—	—	132,339	3,312,945	—	34,403	—	—	3,479,687
Transactions with shareholders									
Dividends paid to shareholders of the parent company	—	—	—	(497,969)	—	(5,156)	—	—	(503,125)
Acquisition of treasury shares	—	—	—	—	(202,051)	—	—	—	(202,051)
Disposal of treasury shares	—	87,212	—	—	168,051	—	—	—	255,263
Changes in interest in subsidiaries	—	41,352	—	—	—	(288,802)	—	—	(247,450)
Others	—	(1,238)	—	—	—	2,340	—	—	1,102
Total transactions with shareholders	—	127,326	—	(497,969)	(34,000)	(291,618)	—	—	(696,261)
Balance at December 31,									
2017	₩ 2,090,558	₩ 17,122,228	₩ 537,668	₩ 15,044,204	₩ (755,973)	₩ 6,144	₩	₩	₩ 34,044,829

(Continued)

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 and 2019

	Equity attributable to shareholders of the parent company						
	Share Capital	Capital surplus	Accumulated other comprehensive income	Retained earnings	Treasury shares	Non-controlling interests	Total equity
	(In millions of Korean won)						
Balance at January 1, 2018	₩ 2,090,558	₩ 17,122,228	₩ 537,668	₩ 15,044,204	₩ (755,973)	₩ 6,144	₩ 34,044,829
The effect of changing of accounting policy	—	—	(349,476)	(71,724)	—	—	(421,200)
Balance after reflecting the effect of accounting policy	2,090,558	17,122,228	188,192	14,972,480	(755,973)	6,144	33,623,629
Comprehensive income							
Profit for the year	—	—	—	3,061,191	—	755	3,061,946
Remeasurements of net defined benefit liabilities	—	—	(138,016)	—	—	—	(138,016)
Exchange differences on translating foreign operations	—	—	48,916	—	—	(96)	48,820
Net gains on financial instruments at fair value through other comprehensive income	—	—	88,013	15,498	—	—	103,511
Shares of other comprehensive income of associates and joint ventures	—	—	(3,733)	—	—	—	(3,733)
Cash flow hedges	—	—	(9,038)	—	—	—	(9,038)
Losses on hedges of a net investment in a foreign operation	—	—	(27,134)	—	—	—	(27,134)
Other comprehensive income of separate account	—	—	28,709	—	—	—	28,709
Fair value changes on financial liabilities designated at fair value due to own credit risk	—	—	1,484	—	—	—	1,484
Net gains on overlay adjustment	—	—	413	—	—	—	413
Total comprehensive income(loss)	—	—	(10,386)	3,076,689	—	659	3,066,962
Transactions with shareholders							
Dividends paid to shareholders of the parent company	—	—	—	(766,728)	—	—	(766,728)
Acquisition of treasury shares	—	—	—	—	(212,576)	—	(212,576)
Non-controlling interests changes in business combination	—	—	—	—	—	2,238	2,238
Others	—	(568)	—	—	—	70	(498)
Total transactions with shareholders	—	(568)	—	(766,728)	(212,576)	2,308	(977,564)
Balance at December 31, 2018¹	<u>₩ 2,090,558</u>	<u>₩ 17,121,660</u>	<u>₩ 177,806</u>	<u>₩ 17,282,441</u>	<u>₩ (968,549)</u>	<u>₩ 9,111</u>	<u>₩ 35,713,027</u>

(Continued)

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 and 2019

	Equity attributable to shareholders of the parent company							Total equity
	Share Capital	Hybrid securities	Capital surplus	Accumulated other comprehensive income	Retained earnings	Treasury shares	Non-controlling interests	
	(In millions of Korean won)							
Balance at January 1, 2019	₩2,090,558	₩ —	₩17,121,660	₩ 177,806	₩17,282,441	₩ (968,549)	₩ 9,111	₩35,713,027
Comprehensive income								
Profit for the year	—	—	—	—	3,311,828	—	1,371	3,313,199
Remeasurements of net defined benefit liabilities	—	—	—	(55,827)	—	—	—	(55,827)
Exchange differences on translating foreign operations	—	—	—	37,577	—	—	284	37,861
Net gains on financial instruments at fair value through other comprehensive income	—	—	—	36,637	(18,475)	—	—	18,162
Shares of other comprehensive income of associates and joint ventures	—	—	—	7,695	—	—	—	7,695
Cash flow hedges	—	—	—	(33,182)	—	—	—	(33,182)
Losses on hedges of a net investment in a foreign operation	—	—	—	(8,900)	—	—	—	(8,900)
Other comprehensive income of separate account	—	—	—	3,364	—	—	—	3,364
Fair value changes on financial liabilities designated at fair value due to own credit risk	—	—	—	(11,372)	—	—	—	(11,372)
Net gains on overlay adjustment	—	—	—	194,223	—	—	—	194,223
Total comprehensive income	—	—	—	170,215	3,293,353	—	1,655	3,465,223
Transactions with shareholders								
Dividends paid to shareholders of the parent company	—	—	—	—	(759,736)	—	—	(759,736)
Issuance of hybrid securities	—	399,205	—	—	—	—	574,580	973,785
Dividends on hybrid securities	—	—	—	—	(6,513)	—	—	(6,513)
Acquisition and retirement of treasury shares	—	—	—	—	(100,000)	(167,639)	—	(267,639)
Others	—	—	1,117	—	—	—	61	1,178
Total transactions with shareholders ..	—	399,205	1,117	—	(866,249)	(167,639)	574,641	(58,925)
Balance at December 31, 2019 ^{1,2}	₩2,090,558	₩399,205	₩17,122,777	₩ 348,021	₩19,709,545	₩(1,136,188)	₩ 585,407	₩39,119,325

(Continued)

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 and 2019

	Equity attributable to shareholders of the parent company							Total equity
	Share Capital	Hybrid securities	Capital surplus	Accumulated other comprehensive income	Retained earnings	Treasury shares	Non-controlling interests	
	(Translation into U.S. dollars(Note 3))(In thousands)							
Balance at January 1, 2019	US\$1,809,286	US\$ —	US\$14,818,047	US\$ 153,884	US\$14,957,196	US\$(838,237)	US\$ 7,885	US\$30,908,061
Comprehensive income								
Profit for the year	—	—	—	—	2,866,242	—	1,187	2,867,429
Remeasurements of net defined benefit liabilities	—	—	—	(48,316)	—	—	—	(48,316)
Exchange differences on translating foreign operations . .	—	—	—	32,521	—	—	246	32,767
Net gains on financial instruments at fair value through other comprehensive income	—	—	—	31,708	(15,990)	—	—	15,718
Shares of other comprehensive income of associates and joint ventures	—	—	—	6,660	—	—	—	6,660
Cash flow hedges	—	—	—	(28,718)	—	—	—	(28,718)
Losses on hedges of a net investment in a foreign operation	—	—	—	(7,703)	—	—	—	(7,703)
Other comprehensive income of separate account	—	—	—	2,911	—	—	—	2,911
Fair value changes on financial liabilities designated at fair value due to own credit risk . . .	—	—	—	(9,842)	—	—	—	(9,842)
Net gains on overlay adjustment	—	—	—	168,092	—	—	—	168,092
Total comprehensive income . . .	—	—	—	147,313	2,850,252	—	1,433	2,998,998
Transactions with shareholders								
Dividends paid to shareholders of the parent company	—	—	—	—	(657,518)	—	—	(657,518)
Issuance of hybrid securities	—	345,495	—	—	—	—	497,274	842,769
Dividends on hybrid securities . . .	—	—	—	—	(5,636)	—	—	(5,636)
Acquisition and retirement of treasury shares	—	—	—	—	(86,546)	(145,084)	—	(231,630)
Others	—	—	966	—	—	—	52	1,018
Total transactions with shareholders	—	345,495	966	—	(749,700)	(145,084)	497,326	(50,997)
Balance at December 31, 2019 ^{1,2}	US\$1,809,286	US\$345,495	US\$14,819,013	US\$ 301,197	US\$17,057,748	US\$(983,321)	US\$ 506,644	US\$33,856,062

¹ The consolidated statements of changes in equity for the years ended December 31, 2018 and 2019 are prepared in accordance with IFRS 9 and IFRS 15, and the comparatives for the year ended December 31, 2017 has not been restated.

² The consolidated statement of changes in equity for the year ended December 31, 2019 is prepared in accordance with IFRS 16, and the comparatives for the years ended December 31, 2017 and 2018 has not been restated.

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 and 2019

	<u>2017</u>	<u>2018¹</u>	<u>2019^{1,2}</u>	<u>2019^{1,2}</u>
	(In millions of Korean won)			Translation into U.S. dollars (Note 3) (In thousands)
Cash flows from operating activities:				
Profit for the year	₩ 3,343,461	₩ 3,061,946	₩ 3,313,199	US\$ 2,867,429
Adjustment for non-cash items				
Net gain on financial assets/liabilities at fair value through profit or loss	—	(104,755)	(438,567)	(379,561)
Net loss (gain) on financial assets/liabilities at fair value through profit or loss (under IAS 39)	(106,868)	—	—	—
Net loss (gain) on derivative financial instruments for hedging purposes	(135,363)	186,029	(3,835)	(3,319)
Adjustment of fair value of derivative financial instruments	(1,000)	410	282	244
Provision for credit loss	548,244	673,694	670,185	580,016
Net loss (gain) on financial investments	110,156	(99,253)	(206,192)	(178,450)
Share of profit of associates and joint ventures	(84,274)	(24,260)	(16,451)	(14,238)
Depreciation and amortization expense	371,150	409,481	784,431	678,891
Depreciation and amortization expense on VOBA	179,193	214,153	192,459	166,565
Other net losses (gains) on property and equipment/ intangible assets	30,893	(138,553)	(33,238)	(28,766)
Share-based payments	73,370	10,930	49,418	42,769
Policy reserve appropriation	1,644,389	1,608,175	1,546,271	1,338,230
Post-employment benefits	233,501	220,215	231,913	200,711
Net interest expense	363,803	277,152	313,550	271,364
Loss (gain) on foreign currency translation	(70,399)	(142,586)	(74,488)	(64,467)
Gains on bargain purchase	(122,986)	—	—	—
Net other expense	204,122	207,025	390,074	337,592
	<u>3,237,931</u>	<u>3,297,857</u>	<u>3,405,812</u>	<u>2,947,581</u>
Changes in operating assets and liabilities				
Financial asset at fair value through profit or loss (under IAS 39)	(3,946,805)	—	—	—
Financial asset at fair value through profit or loss	—	(8,446,927)	(916,415)	(793,117)
Derivative financial instruments	(295,795)	151,297	(644,342)	(557,650)
Loans at fair value through other comprehensive income	—	(40,413)	15,536	13,446
Loans at amortized cost	(22,465,758)	(31,334,606)	(21,681,258)	(18,764,179)
Current income tax assets	59,334	(3,668)	(9,091)	(7,868)
Deferred income tax assets	3,186	(557)	803	695
Other assets	(3,938,297)	(2,292,160)	(3,668,385)	(3,174,826)
Financial liabilities at fair value through profit or loss (under IAS 39)	66,222	—	—	—
Financial liabilities at fair value through profit or loss	—	3,690,005	(77,231)	(66,840)
Deposits	18,858,210	20,679,844	28,480,993	24,649,052
Current income tax liabilities	—	264,765	(266,204)	(230,388)
Deferred income tax liabilities	108,355	115,208	235,209	203,563
Other liabilities	133,931	1,899,791	1,212,080	1,049,002
	<u>(11,417,417)</u>	<u>(15,317,421)</u>	<u>2,681,695</u>	<u>2,320,890</u>
Net cash inflow (outflow) from operating activities	<u>₩ (4,836,025)</u>	<u>₩ (8,957,618)</u>	<u>₩ 9,400,706</u>	<u>US\$ 8,135,900</u>

(Continued)

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 and 2019

	2017	2018 ¹	2019 ^{1,2}	2019 ^{1,2}
	(In millions of Korean won)			Translation into U.S. dollars (Note 3) (In thousands)
Cash flows from investing activities:				
Net cash flows from derivative financial instruments for hedging purposes	₩ —	₩ 42,305	₩ (206,680)	US\$ (178,872)
Disposal of financial asset at fair value through profit or loss	—	9,582,940	11,364,615	9,835,576
Acquisition of financial asset at fair value through profit or loss	—	(8,707,420)	(12,359,886)	(10,696,940)
Disposal of financial investments	38,050,549	60,773,660	69,489,132	60,139,799
Acquisition of financial investments	(46,538,295)	(64,729,380)	(79,083,472)	(68,443,280)
Disposal of investments in associates and joint ventures	141,052	34,717	26,185	22,662
Acquisition of investments in associates and joint ventures	(53,375)	(187,077)	(92,200)	(79,795)
Disposal of property and equipment	31,167	2,272	12,786	11,066
Acquisition of property and equipment	(298,368)	(452,270)	(608,736)	(526,834)
Disposal of investment property	1,593	140,969	94,207	81,532
Acquisition of investment property	(262)	(1,288,125)	(806,088)	(697,634)
Disposal of intangible assets	7,603	10,706	14,694	12,717
Acquisition of intangible assets	(111,894)	(126,163)	(333,557)	(288,679)
Net cash flows from the change in subsidiaries	(405,817)	188,140	91,592	79,269
Others	446,628	234,440	62,984	54,510
Net cash outflow from investing activities	(8,729,419)	(4,480,286)	(12,334,424)	(10,674,903)
Cash flows from financing activities:				
Net cash flows from derivative financial instruments for hedging purposes	63,827	15,044	(28,631)	(24,779)
Net increase in debts	4,272,011	4,216,014	5,027,313	4,350,919
Increase in debentures	139,700,967	143,603,589	93,655,747	81,054,945
Decrease in debentures	(129,235,557)	(135,180,630)	(96,145,669)	(83,209,864)
Increase in other payables from trust accounts	587,523	267,077	(68,648)	(59,412)
Dividends paid to shareholders of the Parent Company	(497,969)	(766,728)	(759,736)	(657,518)
Dividends paid on hybrid securities	—	—	(6,513)	(5,637)
Disposal of treasury shares	3,515	—	—	—
Acquisition of treasury shares	(185,532)	(224,700)	(274,317)	(237,409)
Dividends paid to non-controlling interests	(5,156)	—	—	—
Decrease (Increase) in non-controlling interests	(163,658)	—	574,580	497,274
Issuance of hybrid securities	—	—	399,205	345,494
Principal elements of lease payments	—	—	(229,750)	(198,838)
Others	148,775	(185,894)	134,027	115,994
Net cash inflow from financing activities	14,688,746	11,743,772	2,277,608	1,971,169
Effect of exchange rate changes on cash and cash equivalents	(133,240)	(67,950)	137,019	118,584
Net increase (decrease) in cash and cash equivalents	990,062	(1,762,082)	(519,091)	(449,250)
Cash and cash equivalents at the beginning of the year	7,414,836	8,404,898	6,642,816	5,749,066
Cash and cash equivalents at the end of the year	₩ 8,404,898	₩ 6,642,816	₩ 6,123,725	US\$ 5,299,816

¹ The consolidated statements of cash flows for the years ended December 31, 2018 and 2019 are prepared in accordance with IFRS 9 and IFRS 15, and the comparatives for the year ended December 31, 2017 has not been restated.

² The consolidated statement of cash flows for the year ended December 31, 2019 is prepared in accordance with IFRS 16, and the comparatives for the years ended December 31, 2017 and 2018 has not been restated.

The above consolidated statements of cash flows should be read in conjunction with the accompanying notes.

KB FINANCIAL GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The Parent Company

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

The Parent Company’s share capital as of December 31, 2019, is ₩ 2,090,558 million. The Parent Company has been listed on the Korea Exchange (“KRX”) since October 10, 2008, and on the New York Stock Exchange (“NYSE”) for its American Depositary Shares (“ADS”) since September 29, 2008. Number of shares authorized in its Articles of Incorporation is 1,000 million.

2. Basis of Preparation

2.1 Application of IFRS

The Group’s consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”). IFRS are the standards, subsequent amendments and related interpretations (“IFRICs”) issued by the International Accounting Standards Board (“IASB”).

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. Management also needs to exercise judgment in applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.4.

2.1.1 New and amended standards and interpretations adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2019.

- Enactment of IFRS 16 *Leases*

IFRS 16 *Leases*, the new standard, replaces IAS 17 *Leases*. Under the new standard, with implementation of a single lease model, lessee is required to recognize assets and liabilities for all lease which lease term is over 12 months and underlying assets are not low value assets. A lessee is required to recognize a right-of-use asset and a lease liability representing its obligation to make lease payments.

With implementation of IFRS 16 *Lease*, the Group has changed accounting policy. The Group has adopted IFRS 16 retrospectively, as permitted under the specific transitional provisions in the standard and recognized the cumulative impact of initially applying the standard as at January 1, 2019, the date of initial application. The

Group has not restated comparatives for the 2018 reporting period. The impact of the adoption of the leasing standard and the new accounting policies are disclosed in Note 44.

- Amendments IFRS 9 *Financial Instruments*

The narrow-scope amendments made to IFRS 9 *Financial Instruments* enable entities to measure certain prepayable financial assets with negative compensation at amortized cost. When a modification of a financial liability measured at amortized cost that does not result in the derecognition, a modification gain or loss shall be recognized in profit or loss. The amendment does not have a significant impact on the financial statements.

- Amendments to IAS 19 *Employee Benefits*

The amendments require that an entity shall calculate current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement based on updated actuarial assumptions from the date of the change. The amendments also require that a reduction in a surplus must be recognized in profit or loss even if that surplus was not previously recognized because of the impact of the asset ceiling. The amendment does not have a significant impact on the financial statements.

- Amendments to IAS 28 *Investments in Associates and Joint Ventures*

The amendments clarify that an entity shall apply IFRS 9 to financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The amendment does not have a significant impact on the financial statements.

- Enactment of Interpretation of IFRIC 23 *Uncertainty over Income Tax Treatments*

The enactment clarifies the accounting for uncertainties in income taxes in the event that the decision of taxation authorities or courts can change tax treatment. The enactment presents calculating methods of disclosure amount based on the possibility of future recognition of the income tax treatment and requires disclosure of the uncertainty of the amount. The enactment does not have a significant impact on the financial statements.

- Amendments to IFRS 9 *Financial Instruments*, and 7 *Financial Instruments: Disclosure*

These amendments provide exceptions applying hedge accounting even though interest rate benchmark reform gives rise to uncertainties. In the hedging relationship, an entity shall assume that the interest rate benchmark on which the hedge cash flows are based is not altered as a result of interest rate benchmark reform when determining whether a forecast transaction is highly probable and prospectively assessing hedging effectiveness. For a hedge of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the requirement that the risk component shall be separately identifiable only at the inception of the hedging relationship. The application of this exception is ceased either when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedge item, or when the hedging relationship that the hedge item is part of is discontinued. These amendments will be effective for annual periods beginning on or after January 1, 2020. However, the Group early adopted the amendments as it is permitted. The significant benchmark interest rate indicators for the hedge relationship are LIBOR and CD rate, and the hedge accounting in Note 9 is directly affected by these amendments.

- Annual Improvements to IFRS 3 *Business Combination*

The amendments clarify that when a party to a joint arrangement obtains control of a business that is a joint operation and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. In such cases, the acquirer shall remeasure its entire previously held interest in the joint operation. The amendment does not have a significant impact on the financial statements.

- Annual Improvements to IFRS 11 *Joint Agreements*

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business. In such cases, previously held interests in the joint operation are not remeasured. The amendment does not have a significant impact on the financial statements.

- Annual Improvements to Paragraph 57A of IAS 12 *Income Tax*

The amendment is applied to all the income tax consequences of dividends and requires an entity to recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. The amendment does not have a significant impact on the financial statements.

- Annual Improvements to IAS 23 *Borrowing Cost*

The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use (or sale), it becomes part of general borrowings. The amendment does not have a significant impact on the financial statements.

2.1.2 New and amended standards and interpretations not yet adopted by the Group

Certain new accounting standards and interpretations that have been published but are not mandatory for the reporting period commencing January 1, 2019 and have not been early adopted by the Group are set out below.

- Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting policies, changes in accounting estimates and errors – Definition of Material*

The amendments clarify the explanation of the definition of material and amended IAS 1 and IAS 8 in accordance with the clarified definitions. Materiality is assessed by reference to omission or misstatement of material information as well as effects of immaterial information, and to the nature of the users when determining the information to be disclosed by the Group. These amendments should be applied for annual periods beginning on or after January 1, 2020, and earlier application of permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

- Amendments to IFRS 3 *Business Combination – Definition of a Business*

To consider the integration of the required activities and assets as a business, the amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs and excludes economic benefits from the lower costs. An entity can apply a concentration test, an optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset or a group of similar assets, the assets acquired would not represent a business. These amendments should be applied for annual periods beginning on or after January 1, 2020, and earlier application of permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

- IFRS Interpretations Committee's agenda decisions – *Lease Term*

On December 16, 2019, the IFRS Interpretations Committee announced an interpretation of the "lease term and useful life of leasehold improvements". This interpretation deals with how to determine the lease term of a cancellable lease or a renewable lease and whether the useful life of non-removable leasehold improvements is limited by the relevant lease term. According to this interpretation, the Group should identify factors to consider the broader economic penalty, reflect identified factors to accounting policies, and calculate lease term again based on accounting policy.

However, due to the large number of lease contracts held by the Group and varying terms of the contract, the Group determined that sufficient time would be required to set up items to be included in the review of extensive economic penalty and to establish procedures for collecting and analyzing necessary information. Therefore, the effect of the changes in accounting policy for the lease term is not reflected in the consolidated financial statements for the current reporting period.

If the accounting policy for the lease term is changed in the annual periods beginning on or after January 1, 2020, the amount of the related right-of-use assets and lease liabilities may increase, and the consolidated financial statements may need to be retroactively restated to reflect this effect.

- *IFRS 17 Insurance Contracts*

IFRS 17 ‘Insurance Contracts’ was issued in May 2017 and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is currently effective from 1 January, 2023. The Group is in the process of implementing IFRS 17. Industry practice and interpretation of the standard are still developing and there may be changes to it. Therefore the likely impact of its implementation remains uncertain.

2.2 Measurement Basis

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

2.3 Functional and Presentation Currency

Items included in the financial statements of each entity of the Group are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in Korean won, which is the Parent Company’s functional and presentation currency.

2.4 Critical Accounting Estimates

The preparation of consolidated financial statements requires the application of accounting policies, certain critical accounting estimates and assumptions that may have a significant impact on the assets (liabilities) and incomes (expenses). Management’s estimates of outcomes may differ from actual outcomes.

Estimates and assumptions are continually evaluated and any change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only. Alternatively if the change in accounting estimate affects both the period of change and future periods, that change is recognized in the profit or loss of all those periods.

Our significant estimates that require management judgements include:

2.4.1 Income taxes

The Group is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain.

If certain portion of the taxable income is not used for investments, increase in wages, and others in accordance with the Tax System for Promotion of Investment and Collaborative Cooperation (Recirculation of Corporate Income), the Group is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2018. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new system. As the Group’s income tax is dependent on the investments, increase in wages, and others, there exists uncertainty with regard to measuring the final tax effects.

2.4.2 Fair value of financial instruments

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

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

2.4.3 Provisions for credit losses

The Group tests impairment and recognizes allowances for losses on financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income and lease receivables through impairment testing and recognizes provisions for guarantees, and unused loan commitments. Accuracy of provisions for credit losses is dependent upon estimation of expected cash flows of the borrower for individually assessed allowances of loans, and upon assumptions and methodology used for collectively assessed allowances for groups of loans, guarantees and unused loan commitments.

2.4.4 Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions (Note 24).

2.4.5 Impairment of goodwill

The recoverable amounts of cash-generating units have been determined based on value-in-use calculations to test whether goodwill has suffered any impairment (Note 15).

3. Significant Accounting Policies

The following significant accounting policies and calculation methods applied in the preparation of these consolidated financial statements have been consistently applied to all periods presented, except for the impact of changes due to enactment of new standards, amendments and interpretations disclosed in Note 2.1.

3.1 Consolidation

3.1.1 Subsidiaries

Subsidiaries are companies that are controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence and effects of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date when control is transferred to the Group and de-consolidated from the date when control is lost.

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Parent Company and to the non-controlling interests, if any. Total comprehensive income is attributed to the owners of the Parent Company and to the non-controlling interests even if this results in the non-controlling interests having a negative balance.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions; that is, as transactions with the owners exercising their entitlement. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. Amounts previously recognized in other comprehensive income are reclassified to profit or loss.

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

In a business combination achieved in stages, the Group shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the Group may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognized in other comprehensive income shall be reclassified as profit or loss, or retained earnings, on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

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

3.1.2 Associates and Joint ventures

Associates are entities over which the Group has significant influence in the financial and operating policy decisions. Generally, if the Group holds 20% to 50% of the voting power of the investee, it is presumed that the Group has significant influence.

Joint ventures are investments in which the Group jointly controls over economic activities pursuant to contractual arrangement. Decisions on financial and operating policies require unanimous consent of the parties sharing control.

Under the equity method, investments in associates and joint ventures are initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss of the investee and changes in the investee's equity after the date of acquisition. The Group's share of the profit or loss of the

investee is recognized in the Group's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Profit and loss resulting from 'upstream' and 'downstream' transactions between the Group and associates are eliminated to the extent of the Group's interest in associates. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

If associates and joint ventures use accounting policies other than those of the Group for like transactions and events in similar circumstances, if necessary, adjustments shall be made to make the associate's accounting policies conform to those of the Group when the associate's financial statements are used by the entity in applying the equity method.

If the Group's share of losses of associates and joint ventures equals or exceeds its interest in the associate (including long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. After the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting period whether there is any objective evidence that the investments in the associates and joint ventures are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates and its carrying value and recognizes the amount as 'non-operating income (expense)' in the statement of comprehensive income.

3.1.3 Structured entity

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

3.1.4 Trusts and funds

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

3.1.5 Intra-group transactions

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

3.2 Foreign Currency

3.2.1 Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. At the end of each reporting period, foreign currency monetary items are translated using the closing rate which is the spot exchange rate at the end of the reporting period. Non-monetary items that are measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined and non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous consolidated financial statements are recognized in profit or loss in the period in which they arise, except for exchange differences arising on net investments in a foreign operation and financial liability designated as a hedge of the net investment. When gains or losses on a non-monetary item are recognized in other comprehensive income, any exchange component of those gains or losses are also recognized in other comprehensive income. Conversely, when gains or losses on a non-monetary item are recognized in profit or loss, any exchange component of those gains or losses are also recognized in profit or loss.

3.2.2 Foreign operations

The financial performance and financial position of all foreign operations, whose functional currencies differ from the Group's presentation currency, are translated into the Group's presentation currency using the following procedures.

Assets and liabilities for each statement of financial position presented (including comparatives) are translated at the closing rate at the end of the reporting period, unless the functional currency of the foreign operation is in hyper-inflationary economy. Income and expenses in the statement of comprehensive income presented are translated using the average exchange rates for the period. All resulting exchange differences are recognized in other comprehensive income.

Any goodwill arising from the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation. Thus, they are expressed in the functional currency of the foreign operation and are translated into the presentation currency at the closing rate.

On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss (as a reclassification adjustment) when the gains or losses on disposal are recognized. On the partial disposal of a subsidiary that includes a foreign operation, the Group redistributes the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation, the Group reclassifies to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income.

3.2.3 Net investment in a foreign operation

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, then foreign currency difference arising on the item, which in substance is considered to form part of the net investment in the foreign operation, is recognized in the other comprehensive income and shall be reclassified to profit or loss on disposal of the investment.

3.3 Recognition and Measurement of Financial Instruments

3.3.1 Initial recognition

The Group recognizes a financial asset or a financial liability in its statement of financial position when the Group becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets (a purchase or sale of a financial asset under a contract whose terms require delivery of the financial instruments within the time frame established generally by market regulation or practice) is recognized and derecognized using trade date accounting.

The Group classifies financial assets as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, or financial assets at amortized cost. The Group classifies financial liabilities as financial liabilities at fair value through profit or loss, or other financial liabilities. The classification depends on the nature and holding purpose of the financial instrument at initial recognition in the consolidated financial statements.

At initial recognition, a financial asset or financial liability is measured at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of a financial instrument on initial recognition is normally the transaction price (that is, the fair value of the consideration given or received) in an arm's length transaction.

3.3.2 Subsequent measurement

After initial recognition, financial instruments are measured at amortized cost or fair value based on classification at initial recognition.

Amortized cost

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition:

- minus the principal repayments
- plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount
- or any reduction (directly or through the use of an allowance account) due to impairment or uncollectibility

Fair value

Fair values, which the Group primarily uses for the measurement of financial instruments, are the published price quotations based on market prices or dealer price quotations of financial instruments traded in an active market where available. These are the best evidence of fair value. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity in the same industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If the market for a financial instrument is not active, fair value is determined either by using a valuation technique or independent third-party valuation service. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, referencing to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

The Group uses valuation models that are commonly used by market participants and customized for the Group to determine fair values of common over-the-counter (OTC) derivatives such as options, interest rate swaps and currency swaps which are based on the inputs observable in markets. For more complex instruments, the Group uses internally developed models, which are usually based on valuation methods and techniques generally used within the industry, or a value measured by an independent external valuation institution as the fair values if all or some of the inputs to the valuation models are not market observable and therefore it is necessary to estimate fair value based on certain assumptions.

In addition, the fair value information recognized in the statement of financial position is classified into the following fair value hierarchy, reflecting the significance of the input variables used in the fair value measurement.

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

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

If the valuation technique does not reflect all factors which market participants would consider in setting a price, the fair value is adjusted to reflect those factors. Those factors include counterparty credit risk, bid-ask spread, liquidity risk and others.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with economic methodologies applied for pricing financial instruments. Periodically, the Group calibrates the valuation technique and tests its validity using prices of observable current market transactions of the same instrument or based on other relevant observable market data.

3.3.3 Derecognition

Derecognition is the removal of a previously recognized financial asset or financial liability from the statement of financial position. The Group derecognizes a financial asset or a financial liability when, and only when:

Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or the financial assets have been transferred and substantially all the risks and rewards of ownership of the financial assets are also transferred, or all the risks and rewards of ownership of the financial assets are neither substantially transferred nor retained and the Group has not retained control. If the Group neither transfers nor disposes of substantially all the risks and rewards of ownership of the financial assets, the Group continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

If the Group transfers the contractual rights to receive the cash flows of the financial asset, but retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognize the transferred asset in its entirety and recognize a financial liability for the consideration received.

The Group writes off financial assets in its entirety or to a portion thereof when the principal and interest on the principal amount outstanding are determined to be no longer recoverable. In general, the Group considers write-off if significant financial difficulties of the debtor, or delinquency in interest or principal payments is indicated. The write-off decision is made in accordance with internal regulations and may require approval from external institution, if necessary. After the write-off, the Group can collect the written-off loans continuously according to the internal policy. Recovered amounts of financial assets previously written-off are recognized at profit or loss.

Derecognition of financial liabilities

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

3.3.4 Offsetting

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

3.4 Cash and Due from Financial Institutions

Cash and due from financial institutions include cash on hand, foreign currency, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and due from financial institutions. Cash and due from financial institutions are measured at amortized cost.

3.5 Non-derivative Financial Assets

3.5.1 Financial assets at fair value through profit or loss

Financial assets classified as held for trading, financial assets designated by the Group as at fair value through profit or loss upon initial recognition, and financial assets that are required to be mandatorily measured at fair value through profit or loss are classified as financial assets at fair value through profit or loss.

The Group may designate certain financial assets upon initial recognition as at fair value through profit or loss when the designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as ‘an accounting mismatch’) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

After initial recognition, a financial asset at fair value through profit or loss is measured at fair value and gains or losses arising from a change in the fair value are recognized in profit or loss. Interest income and dividend income from financial assets at fair value through profit or loss are also recognized in the statement of comprehensive income.

3.5.2 Financial assets at fair value through other comprehensive income

The Group classifies below financial assets as financial assets at fair value through other comprehensive income;

- debt instruments that are a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and consistent with representing solely payments of principal and interest on the principal amount outstanding; or
- equity instruments, not held for trading with the objective of generating a profit from short-term fluctuations in price or dealer’s margin, designated as financial assets at fair value through other comprehensive income.

After initial recognition, a financial asset at fair value through other comprehensive income is measured at fair value. Gain and loss from changes in fair value, other than dividend income and interest income amortized using effective interest method and exchange differences arising on monetary items which are recognized directly in income as interest income or expense, are recognized as other comprehensive income in equity.

At disposal of financial assets at fair value through other comprehensive income, cumulative gain or loss is recognized as profit or loss for the reporting period. However, cumulative gain or loss of equity instrument designated as fair value through other comprehensive income are not recycled to profit or loss at disposal.

Financial assets at fair value through other comprehensive income denominated in foreign currencies are translated at the closing rate. Exchange differences resulting from changes in amortized cost are recognized in profit or loss, and other changes are recognized as equity.

3.5.3 Financial assets measured at amortized cost

A financial asset, which are held within the business model whose objective is to hold assets in order to collect contractual cash flows and consistent with representing solely payments of principal and interest on the principal amount outstanding, are classified as a financial asset at amortized cost. Financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method after initial recognition and interest income is recognized using the effective interest method.

3.6 Expected Credit Loss of Financial Assets (Debt Instruments)

The Group measures expected credit loss and recognizes loss allowance at the end of the reporting period for financial assets measured at amortized cost and fair value through other comprehensive income with the exception of financial asset measured at fair value through profit or loss.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. The Group measures expected credit losses by reflecting reasonable and supportable information that is reasonably available at the reporting date without undue cost or effort, including information about past events, current conditions and forecasts of future economic conditions.

The Group uses the following three measurement techniques in accordance with IFRS:

- General approach: for financial assets and unused credit line that are not subject to two approaches below
- Simplified approach: for receivables, contract assets and lease receivables
- Credit-impaired approach: for purchased or originated credit-impaired financial assets

Different measurement approaches are applied depending on significant increase in credit risk. 12 month expected credit losses is recognized when credit risk has not significantly increased since initial recognition. A loss allowance at an amount equal to lifetime expected credit losses is recognized when credit risk has significantly increased since initial recognition. Lifetime is presumed to be a period to the contractual maturity date of a financial asset (the expected life of the financial asset).

One or more of the following items is deemed significant increase in credit risk. 30 days past due presumption is applicable for all consolidated subsidiaries, and other standards are selectively applied considering applicability of each subsidiary with its specific indicators. When the contractual cash flows of a financial asset are renegotiated or otherwise modified, the Group determines whether the credit risk has increased significantly since initial recognition using the following information.

- more than 30 days past due;
- decline in credit rating at period end by more than certain notches as compared to that at initial recognition;
- decline in ratings below certain level in the internally developed early warning system;

- debt restructuring (except for impaired financial assets); or
- credit delinquency information on Korea Federation of Banks, and etc.

Under simplified approach, the Group shall always measure the loss allowance at an amount equal to lifetime expected credit losses. Under credit-impaired approach, the Group shall only recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets. In assessing credit impairment, the Group uses definition of default as in the new Basel Accord which rules calculation of Capital Adequacy Ratio.

The Group generally deems one or more of the following items credit-impaired:

- no less than 90 days past due;
- legal proceedings related to collection;
- a borrower that has received a warning from the Korea Federation of Banks;
- corporate borrowers that are rated C or D;
- refinancing when a borrower may have difficulty with original terms; or
- debt restructuring.

3.6.1 Forward-looking information

The Group uses forward-looking information, when it determines whether the credit risk has increased significantly since initial recognition and measures expected credit losses.

The Group assumes the risk component has a certain correlation with the economic cycle, and uses statistical methodologies to estimate the relation between key macroeconomic variables and risk components for the expected credit losses.

The correlation between the major macroeconomic variables and the credit risk is as follows;

<u>Key macroeconomic variables</u>	<u>Correlation between the major macroeconomic variables and the credit risk</u>
Domestic GDP growth rate	(-)
Composite stock index	(-)
Construction investment change rate	(-)
Rate of change in housing transaction price index	(-)
Interest rate spread	(+)
Private consumption growth rate	(-)
Change of call rate compared to the previous year (%p)	(+)
Retail loan change rate	(-)

Forward-looking information used in calculation of expected credit losses is based on the macroeconomic forecasts utilized by management of the Group for its business plan taking into account reliable external agency's forecasts and others. The forward-looking information is generated by KB Research under the Parent Company with comprehensive approach to capture the possibility of various economic forecast scenarios that are derived from the internal and external viewpoints of the macroeconomic situation. The Group determines the macroeconomic variables to be used in forecasting future condition of the economy, taking into account the direction of the forecast scenario and the significant relationship between macroeconomic variables and time series data. And there are some changes compared to the macroeconomic variables used in the previous year

3.6.2 Measuring expected credit losses on financial assets at amortized cost

The amount of the loss on financial assets at amortized cost 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 Group estimates expected future cash flows for financial assets that are individually significant (individual assessment of impairment).

For financial assets that are not individually significant, the Group collectively estimates expected credit loss by grouping loans with homogeneous credit risk profile (collective assessment of impairment).

Individual assessment of impairment

Individual assessment of impairment losses are calculated using management's best estimate on present value of expected future cash flows. The Group uses all the available information including operating cash flow of the borrower and net realizable value of any collateral held.

Collective assessment of impairment

Collective assessment of loss allowance involves historical loss experience along with incorporation of forward-looking information. Such process incorporates factors such as type of collateral, product and borrowers, credit rating, size of portfolio and recovery period and applies 'probability of default' (PD) on a group of assets and 'loss given default' (LGD) by type of recovery method. Also, the expected credit loss model involves certain assumption to determine input based on loss experience and forward-looking information. These models and assumptions are periodically reviewed to reduce gap between loss estimate and actual loss experience.

Lifetime expected credit loss as at the end of the reporting period is calculated by product of carrying amount net of expected repayment, PD for each period and LGD adjusted by change in carrying amount.

3.6.3 Measuring expected credit losses on financial assets at fair value through other comprehensive income

Measuring method of expected credit losses on financial assets at fair value through other comprehensive income is equal to the method of financial assets at amortized cost, except for loss allowances that are recognized as other comprehensive income. Amounts recognized in other comprehensive income for sale or repayment of financial assets at fair value through other comprehensive income are reclassified to profit or loss.

3.7 Derivative Financial Instruments

The Group enters into numerous derivative financial instrument contracts such as currency forwards, interest rate swaps, currency swaps and others for trading purposes or to manage its exposures to fluctuations in interest rates and currency exchange, amongst others. These derivative financial instruments are presented as derivative financial instruments within the consolidated financial statements irrespective of transaction purpose and subsequent measurement requirement.

The Group designates certain derivatives as hedging instruments to hedge the risk of changes in fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge) and the risk of changes in cash flow (cash flow hedge). The Group designates non-derivatives as hedging instruments to hedge the risk of foreign exchange of a net investment in a foreign operation (hedge of net investment).

At the inception of the hedge, there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. This documentation includes

identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group 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.

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

3.7.1 Derivative financial instruments held for trading

All derivative financial instruments, except for derivatives that are designated and qualify for hedge accounting, are measured at fair value. Gains or losses arising from a change in fair value are recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss.

3.7.2 Fair value hedges

If derivatives qualify for a fair value hedge, the change in fair value of the hedging instrument and the change in fair value of the hedged item attributable to the hedged risk are recognized in profit or loss as part of other operating income and expenses. If hedged items are equity instruments and designated to present the change in fair value of the hedging instrument in other comprehensive income, recognized hedge ineffectiveness are presented in other comprehensive income. Fair value hedge accounting is discontinued prospectively if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Once fair value hedge accounting is discontinued, the adjustment to the carrying amount of a hedged item is fully amortized to profit or loss by the maturity of the financial instrument using the effective interest method.

3.7.3 Cash flow hedges

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income, limited to the cumulative change in fair value (present value) of the hedged item (the present value of the cumulative change in the future expected cash flows of the hedged item) from the inception of the hedge. The ineffective portion is recognized in gain or loss (other operating income or expense). The associated gains or losses that were previously recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affects profit or loss. The associated gains or losses that were previously recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affects profit or loss. Cash flow hedge accounting is discontinued prospectively if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. When the cash flow hedge accounting is discontinued, the cumulative gains or losses on the hedging instrument that have been recognized in other comprehensive income are reclassified to profit or loss over the year in which the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the cumulative gains or losses that had been recognized in other comprehensive income are immediately reclassified to profit or loss.

3.7.4 Hedge of net investment

If derivatives and non-derivatives qualify for a net investment hedge, the effective portion of changes in fair value of hedging instrument is recognized in other comprehensive income and the ineffective portion is recognized in profit. The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognized in other comprehensive income will be reclassified from other comprehensive income to profit or loss as a reclassification adjustment on the disposal or partial disposal of the foreign operation in accordance with IFRS 9 *Financial Instruments*.

3.7.5 Embedded derivatives

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

3.7.6 Day one gain and loss

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

3.8 Property and Equipment

3.8.1 Recognition and measurement

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

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

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

3.8.2 Depreciation

Land is not depreciated, whereas other property and equipment are depreciated using the method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group. The depreciable amount of an asset is determined after deducting its residual value.

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

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

<u>Property and equipment</u>	<u>Depreciation method</u>	<u>Estimated useful life</u>
Buildings and structures	Straight-line	20 ~ 40 years
Leasehold improvements	Declining-balance/ Straight-line	4 ~ 15 years
Equipment and vehicles	Declining-balance/ Straight-line	3 ~ 15 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at each financial year end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

3.9 Investment Properties

3.9.1 Recognition and Measurement

Properties held to earn rentals or for capital appreciation or both are classified as investment properties. Investment properties are measured initially at their cost and subsequently the cost model is used.

3.9.2 Depreciation

Land is not depreciated, whereas other investment properties are depreciated using the method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group. The depreciable amount of an asset is determined after deducting its residual value.

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

Investment property	Depreciation method	Estimated useful life
Buildings	Straight-line	20~40 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at each financial year end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate

3.10 Intangible Assets

Intangible assets are measured initially at cost and subsequently carried at their cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets, except for goodwill and membership rights, are amortized using the straight-line method or double declining balance method with no residual value over their estimated useful economic life since the asset is available for use.

Intangible assets	Amortization method	Estimated useful life
Industrial property rights	Straight-line	3~19 years
Software	Straight-line	3~5 years
VOBA	Declining-balance	60 years
Others	Straight-line	1~13 years

The amortization period and the amortization method for intangible assets with a definite useful life are reviewed at each financial year end. Where an intangible asset is not being amortized because its useful life is considered to be indefinite, the Group carries out a review in each accounting period to confirm whether or not events and circumstances still support the assumption of an indefinite useful life. If they do not, the change from the indefinite to definite useful life is accounted for as a change in an accounting estimate.

3.10.1 Value of Business Acquired (VOBA)

The Group recorded value of business acquired (VOBA) as intangible assets, which are the differences between the fair value of insurance liabilities and book value calculated based on the accounting policy of the acquired company. VOBA is an estimated present value of future cash flow of long-term insurance contracts at

the acquisition date. VOBA is amortized over the above estimated useful life using declining balance method, and the depreciation is recognized as insurance expense.

3.10.2 Goodwill

Recognition and measurement

Goodwill arisen from business combinations before January 1, 2010, is stated at its carrying amount which was recognized under the Group's previous accounting policy, prior to the transition to IFRS.

Goodwill acquired from business combinations after January 1, 2010, is initially measured as the excess of the aggregate of the consideration transferred, fair value of non-controlling interest and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the business acquired, the difference is recognized in profit.

For each business combination, the Group decides whether the non-controlling interest in the acquiree is initially measured at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets at the acquisition date.

Acquisition-related costs incurred to affect a business combination are charged to expenses in the periods in which the costs are incurred and the services are received, except for the costs to issue debt or equity securities.

Additional acquisitions of non-controlling interest

Additional acquisitions of non-controlling interests are accounted for as equity transactions. Therefore, no additional goodwill is recognized.

Subsequent measurement

Goodwill is not amortized and is stated at cost less accumulated impairment losses. However, goodwill that forms part of the carrying amount of an investment in associates is not separately recognized and an impairment loss recognized is not allocated to any asset, including goodwill, which forms part of the carrying amount of the investment in the associates.

3.10.3 Subsequent expenditure

Subsequent expenditure is capitalized only when it enhances values of the assets. Internally generated intangible assets, such as goodwill and trade name, are not recognized as assets but expensed as incurred.

3.11 Impairment of Non-financial Assets

The Group assesses at the end of each reporting period whether there is any indication that a non-financial asset, except for (i) deferred income tax assets, (ii) assets arising from employee benefits and (iii) non-current assets (or group of assets to be sold) classified as held for sale, may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. However, irrespective of whether there is any indication of impairment, the Group tests (i) goodwill acquired in a business combination, (ii) intangible assets with an indefinite useful life and (iii) intangible assets not yet available for use for impairment annually by comparing their carrying amount with their recoverable amount.

The recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the cash-generating unit to

which the asset belongs (the asset's cash-generating unit). A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit that are discounted by a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss and recognized immediately in profit or loss. For the purpose of impairment testing, goodwill arising from in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

An impairment loss recognized for goodwill is not reversed in a subsequent period. The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset, other than goodwill, may no longer exist or may have decreased, and an impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

3.12 Non-current Assets Held for Sale

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

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

Impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. Gains are recognized for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized.

3.13 Financial Liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities.

The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

3.13.1 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value

through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

In relation to securities lending or borrowing transactions, the Group records transaction using memo value when it borrows securities from Korea Securities Depository etc. The borrowed securities are treated as financial liabilities at fair value through profit and loss when the Group sells them. Changes in fair value at the end of the reporting period and difference between carrying amount at redemption and purchased amount are recognized as profit and loss.

In addition, for the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, the Group presents this change in other comprehensive income, and does not recycle this to profit or loss, subsequently. When this treatment creates or enlarges an accounting mismatch, the Group recognizes this change as profit or loss for the current period.

3.13.2 Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. Other financial liabilities include Deposits, Debts, Debentures and others. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost, and its interest expense is recognized, using the effective interest method.

In case an asset is sold under repurchase agreement, the Group continues to recognize the asset with the amount sold being accounted for as borrowing.

The Group derecognizes a financial liability from the consolidated statement of financial position only when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled, or expires).

3.14 Insurance Contracts

KB Life Insurance Co., Ltd., and KB Insurance Co., Ltd., the subsidiaries of the Group, issue insurance contracts.

Insurance contracts are defined as “a contract under which one party (the insurer) accepts significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder”. A contract that qualifies as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Such a contract that does not contain significant insurance risk is classified as an investment contract and is within the scope of IFRS 9, *Financial Instruments* to the extent that it gives rise to a financial asset or financial liability, except if the investment contract contains a Discretionary Participation Features (DPF). If the contract has a DPF, the contract is subject to IFRS 4, *Insurance Contracts*. The Group recognizes assets (liabilities) and gains (losses) relating to insurance contracts as other assets (liabilities) in the statement of financial position, and as other operating income (expenses) in the statement of comprehensive income, respectively.

3.14.1 Insurance premiums

The Group recognizes collected premiums as revenue on the due date of collection of premiums from insurance contracts and the collected premium which is not earned at the end of the reporting period is recognized as unearned premium.

3.14.2 Insurance liabilities

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

Premium reserve

Premium reserve refers to an amount based on the net premium method for payment of future claims with respect to events covered by insurance policies which have not yet occurred as of the reporting period. It is calculated as the greater of the amount using standard interest rate and standard loss ratio defined by Financial Supervisory Services and the amount using the actual underlying data that have been used in premium calculation.

Reserve for outstanding claims

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

Unearned premium reserve

The premiums that are due before the end of the reporting period but applicable to the next period are included.

Policyholders' dividends reserve

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

3.14.3 Liability adequacy test

The Group assesses at each reporting period whether its insurance liabilities are adequate, using current estimates of all future contractual cash flows and related cash flow such as claims handling cost, as well as cash flows resulting from embedded options and guarantees under its insurance contracts in accordance with IFRS 4. If the assessment shows that the carrying amount of its insurance liabilities is insufficient in light of the estimated future cash flows, additional reserve is recognized for the deficient amount. Future cash flows from long-term insurance are discounted at a future rate of return on operating assets, whereas future cash flows from general insurance are not discounted to present value. For liability adequacy tests of premium and unearned premium reserves, the Group considers all cash flow factors such as future insurance premium, deferred acquisition costs, operating expenses and operating premiums. In relation to the reserve for outstanding claims, the Group elects to use a model that best reflects the trend of paid claims among several statistical methods to perform the adequacy test.

3.14.4 Deferred acquisition costs

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

3.15 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of provisions, and where the effect of the time value of money is material, the amount of provisions are the present value of the expenditures expected to be required to settle the obligation.

Provisions on confirmed and unconfirmed acceptances and guarantees, unfunded commitments of credit cards and unused credit lines of consumer and corporate loans are recognized using a valuation model that applies the credit conversion factor, probability of default, and loss given default.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provisions are reversed.

If the Group has an onerous contract, the present obligation under the contract is recognized and measured as provisions. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the minimum net cost to exit from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

3.16 Financial Guarantee Contracts

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

Financial guarantee contracts are initially recognized at fair value as other liabilities, and are amortized over the contractual term. After initial recognition, financial guarantee contracts are measured at the higher of:

- The amount determined in accordance with IFRS 9, *Financial Instruments* or
- The initial amount recognized, less, when appropriate, cumulative amortization recognized in accordance with IFRS 15, *Revenue from Contracts with Customers*.

3.17 Equity Instruments Issued by the Group

An equity instrument is any contract or agreement that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

3.17.1 Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or the exercise of stock option are deducted from the equity, net of any tax effects.

3.17.2 Hybrid securities

The financial instruments can be classified as either financial liabilities or equity in accordance with the terms of the contract. The Group classifies hybrid securities as an equity if the Group has the unconditional right to avoid any contractual obligation to deliver financial assets such as cash in relation to the financial instruments. As a result, hybrid securities issued by subsidiaries are classified as non-controlling interests, dividends are recognized in the consolidated statement of comprehensive income as profit attributable to non-controlling interests.

3.17.3 Treasury shares

If the Group acquires its own equity instruments, these are accounted for as treasury shares and are deducted directly from equity. No gains or losses are recognized in profit or loss on the purchase, sale, issue or cancellation of own equity instruments. If an entity within the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

3.17.4 Compound financial instruments

A compound financial instrument is classified as a financial liability or an equity instrument depending on the substance of the contractual arrangement of such financial instrument. The liability component of the compound financial instrument is measured at fair value of the similar liability without conversion option at initial recognition and subsequently measured at amortized cost using effective interest rate method until it is extinguished by conversion or matured. Equity component is initially measured at fair value of compound financial instrument in entirety less fair value of liability component net of tax effect and it is not remeasured subsequently.

3.18 Revenue Recognition

The Group recognizes revenues in accordance with the following revenue recognition standard:

- Step 1: Identify the contract with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

3.18.1 Interest income and expense

Interest income of financial assets at amortized cost and financial assets at fair value through other comprehensive income, and expense are recognized in the statement of comprehensive income using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid (main components of effective interest rates only) or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the Group uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Interest on impaired financial assets is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned arising from debt investments at fair value through profit or loss is also classified as interest income in the statement of comprehensive income.

3.18.2 Fee and commission income

The Group recognizes financial service fees in accordance with the accounting standard of the financial instrument related to the fees earned.

Fees that are an integral part of the effective interest of a financial instrument

Such fees are generally treated as adjustments of effective interest. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction and origination fees received on issuing financial liabilities measured at amortized cost. However, fees relating to the creation or acquisition of a financial instrument at fair value through profit or loss are recognized as revenue immediately.

Fees earned as services are provided

Such fees are recognized as revenue as the services are provided. Fees which can be earned through the certain periods, including account servicing fees, investment management fees, and etc. are recognized when the related services are provided.

Fees that are earned on the execution of a significant act

Such fees are recognized as revenue when the significant act has been completed.

Commission on the allotment of shares to a client is recognized as revenue when the shares have been allotted and placement fees for arranging a loan between a borrower and an investor is recognized as revenue when the loan has been arranged.

A syndication fee received by the Group that arranges a loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants) is compensation for the service of syndication. Such a fee is recognized as revenue when the syndication has been completed.

3.18.3 Net gains/losses on financial instruments at fair value through profit or loss

Net gains/losses on financial instruments at fair value through profit or loss include profit or loss (changes in fair value, dividends, and gain/loss from foreign currency translation) from following financial instruments:

- Gain or loss from financial instruments at fair value through profit or loss
- Gain or loss from derivatives for trading, including derivatives for hedging that does not meet the condition of hedge accounting

3.18.4 Dividend income

Dividend income is recognized in profit or loss when the right to receive payment is established. Dividend income is recognized as relevant items on statements of profit or loss and other comprehensive income in accordance with the classification of equity instruments.

3.19 Employee Compensation and Benefits

3.19.1 Post-employment benefits: defined contribution plans

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

3.19.2 Post-employment benefits: *defined benefit plans*

All post-employment benefits, other than defined contribution plans, are classified as defined benefit plans. The amount recognized as a defined benefit liability is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period.

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

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

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

3.19.3 Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service. The undiscounted amount of short-term employee benefits expected to be paid in exchange for that service is recognized as a liability (accrued expense), after deducting any amount already paid.

The expected cost of profit-sharing and bonus payments are recognized as liabilities when the Group has a present legal or constructive obligation to make such payments as a result of past events rendered by employees and a reliable estimate of the obligation can be made.

3.19.4 Share-based payment

The Group has provided its directors and employees with stock grant, and mileage stock programs. When stock grants are settled, the Group can either select to distribute newly issued shares or treasury shares or compensate in cash based on the share price. When mileage stock options are exercised, the Group pays the amount equivalent to KB Financial Group's share price in cash.

For a share-based payment transaction in which the terms of the arrangement provide the Group with the choice of whether to settle in cash or by issuing equity instruments, the Group determines that it has a present obligation to settle in cash because the Group has a past practice and a stated policy of settling in cash. Therefore, the Group accounts for the transaction in accordance with the requirements of cash-settled share-based payment transactions. For mileage stock option, the Group accounts for the transaction in accordance with cash-settled share-based payment transactions, which are recognized as accrued expenses at the time of vesting.

The Group measures the services acquired and the liability incurred at fair value, and the fair value is recognized as expense and accrued expenses over the vesting period. Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the reporting period.

3.19.5 Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group shall recognize a liability and expense for termination benefits at the earlier of the following dates: when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. Termination benefits are measured by considering the number of employees expected to accept the offer in the case of a voluntary early retirement. Termination benefits over 12 months after the reporting period are discounted to present value.

3.20 Income Tax Expenses

Income tax expense comprises current tax expense and deferred income tax expense. Current and deferred income tax are recognized as income or expense for the period, except to the extent that the tax arises from (a) a transaction or an event which is recognized, in the same or a different period outside profit or loss, either in other comprehensive income or directly in equity and (b) a business combination.

3.20.1 Current income tax

Current income tax is the amount of income taxes payable in respect of the taxable profit (loss) for a period. A difference between the taxable profit and accounting profit may arise when income or expense is included in accounting profit in one period, but is included in taxable profit in a different period. Differences may also arise if there is revenue that is exempt from taxation, or expense that is not deductible in determining taxable profit (loss). Current income tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The Group offsets current income tax assets and current income tax liabilities if, and only if, the Group (a) has a legally enforceable right to offset the recognized amounts and (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.20.2 Deferred income tax

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

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

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

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

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

3.20.3 Uncertain tax positions

Uncertain tax positions arise from tax treatments applied by the Group which may be challenged by the tax authorities due to the complexity of the transaction or different interpretation of the tax laws, a claim for rectification brought by the Group, or an appeal for a refund claimed from the tax authorities related to additional assessments. The Group recognizes its uncertain tax positions in the consolidated financial statements based on the guidance in IAS 12. The income tax asset is recognized if a tax refund is probable for taxes paid and levied by the tax authority. However, interest and penalties related to income tax are recognized in accordance with IAS 37.

3.21 Earnings per Share

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

3.22 Leases

As explained in Note 2.1 above, the Group has changed its accounting policy for leases. The impact of the new accounting policies is disclosed in Note 44.

Lease income from operating leases where the Group is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the statement of financial position based on their nature. The Group did not need to make any adjustments to the accounting for assets held as a lessor as a result of adopting the new leasing standard.

At inception of a contract, the Group is required to assess whether the contract is, or contains, a lease. Also, at the date of initial application, the Group has assessed whether the contract is, or contains, a lease in accordance with the standard. However, the Group did not reassess all contracts as the Group elected to apply the practical expedient not to apply the standard to contracts that were not previously identified as containing a lease. On the basis of the date of initial application, the Group assesses whether the contract is, or contains, a lease.

A lessee is required to recognize a right-of-use asset (lease assets) representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or a rate
- Amounts expected to be payable by the lessee under residual value guarantees
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and
- Restoration costs

However, short-term lease (lease that, at the commencement date, has a lease term of 12 months or less) and lease of low-value assets (For example, underlying leased asset under \$ 5,000) are permitted to elect exceptional conditions.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term.

Related to sale and leaseback, an entity (seller-lessee) is required to applying IFRS 15 *Revenue from Contracts with Customers* to determine whether the transfer of an asset is accounted for as a sale of that asset. However, the Group has not reassessed sale and leaseback transactions entered into before the date of initial application.

Extension and termination options are included in a number of leases across the Group. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. But the Group is evaluating its application in accordance with the IFRIC's decision about "lease term and useful life of leasehold Improvements"

3.23 Operating Segments

Operating segments are components of the Group where separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

Segment information includes items which are directly attributable and reasonably allocated to the segment.

3.24 Overlay Approach

The Group applies the overlay approach in accordance with IFRS 4, and financial asset is eligible for designation for the overlay approach if, and only if, the following criteria are met:

- It is measured at fair value through profit or loss applying IFRS 9 but would not have been measured at fair value through profit or loss in its entirety applying IAS 39.
- It is not held in respect of an activity that is unconnected with contracts within the scope of IFRS 4.

The Group reclassifies between profit or loss and other comprehensive income, and the amount reclassified is equal to the difference between:

- The amount reported in profit or loss for the designated financial assets applying IFRS 9.
- The amount that would have been reported in profit or loss for the designated financial assets if the insurer had applied IAS 39.

The Group is permitted to apply this approach either at initial recognition or it may subsequently designate financial assets that newly meet criterion of not being held in respect of activity unconnected with insurance contract, having previously not met that criterion.

The Group continues to apply the overlay approach to a designated financial asset until that financial asset is derecognized. However, the Group de-designates a financial asset when the financial asset no longer meets the criterion. In this case, the Group reclassifies from accumulated other comprehensive income to profit or loss as a reclassification adjustment any balance relating to that financial asset.

At the beginning of any annual period, the Group may stop applying the overlay approach to all designated financial assets, and shall not subsequently apply the overlay approach, if it stops using this approach because it is no longer an insurer.

3.25 United States dollar amounts

The Group operates primarily in Korea and its official accounting records are maintained in Korean won. The U.S. dollar amounts are provided herein as supplementary information solely for the convenience of the reader. Korean won amounts are expressed in U.S. dollars at the rate of ₩1,155.46 to U.S. \$1.00, the U.S. Federal Reserve Bank of New York buying exchange rate in effect at noon, December 31, 2019. Such convenience translation into US dollars should not be construed as representations that the Korean won amounts have been, could have been, or could in the future be, converted at this or any other rate of exchange.

4. Financial Risk Management

4.1 Summary

4.1.1 Overview of Financial Risk Management Policy

The financial risks that the Group is exposed to are credit risk, market risk, liquidity risk, operational risk and others.

The Group's risk management system focuses on increasing transparency, developing the risk management environment, preventing transmission of risk to other related subsidiaries, and the preemptive response to risk due to rapid changes in the financial environment to support the Group's long-term strategy and business decisions efficiently. Credit risk, market risk, liquidity risk, and operational risk have been recognized as the Group's key risks. These risks are measured and managed in Economic Capital or VaR (Value at Risk) using a statistical method.

4.1.2 Risk Management Organization

Risk Management Committee

The Risk Management Committee establishes risk management strategies in accordance with the directives of the Board of Directors and determines the Group's target risk appetite. The Committee approves significant risk matters and reviews the level of risks that the Group is exposed to and the appropriateness of the Group's risk management operations as an ultimate decision-making authority.

Risk Management Council

The Risk Management Council is a consultative group which reviews and makes decisions on matters delegated by the Risk Management Committee, and discusses the detailed issues relating to the Group's risk management.

Risk Management Division

The Risk Management Division is responsible for monitoring and managing the Group's economic capital limit and managing detailed policies, procedures and working processes relating to the Group's risk management.

4.2 Credit Risk

4.2.1 Overview of Credit Risk

Credit risk is the risk of possible losses in an asset portfolio in the event of a counterparty's default, breach of contract and deterioration in the credit quality of the counterparty. For risk management reporting purposes, the individual borrower's default risk, country risk, specific risks and other credit risk exposure components are considered as a whole.

The Group uses definition of default as defined and applied in the calculation of Capital Adequacy Ratio (Basel III) in accordance with the new Basel Accord.

4.2.2 Credit Risk Management

The Group measures expected losses and economic capital on assets that are subject to credit risk management whether on- or off-balance sheet items and uses expected losses and economic capital as a management indicator. The Group manages credit risk by allocating credit risk economic capital limits.

In addition, the Group controls the credit concentration risk exposure by applying and managing total exposure limits to prevent an excessive risk concentration to each industry and borrower.

The Group has organized a credit risk management team that focuses on credit risk management in accordance with the Group's credit risk management policy. Especially, the loan analysis department of Kookmin Bank, one of the subsidiaries, is responsible for loan policy, loan limit, loan review, credit management, restructuring and subsequent event management, independently of operating department. On the other hand, risk management group of Kookmin Bank is responsible for planning risk management policy, applying limits of credit lines, measuring the credit risk economic capital, adjusting credit limits, reviewing credit and verifying credit evaluation models.

4.2.3 Maximum Exposure to Credit Risk

The Group's maximum exposures of financial instruments, excluding equity securities, to credit risk without consideration of collateral values as of December 31, 2018 and 2019, are as follows:

	<u>2018</u>	<u>2019</u>
	(In millions of Korean won)	
Financial assets		
Due from financial institutions at amortized cost ¹	₩ 17,216,288	₩ 18,142,960
Financial assets at fair value through profit or loss		
Due from financial institutions	381,719	216,367
Securities	48,285,482	50,721,526
Loans	954,176	427,545
Financial instruments indexed to the price of gold	78,808	79,805
Derivatives	2,025,962	3,190,673
Loans at amortized cost ¹	319,201,603	339,684,059
Financial investments		
Securities measured at fair value through other comprehensive income	35,243,634	43,556,848
Securities at amortized cost ¹	23,661,522	25,346,555
Loans measured at fair value through other comprehensive income	389,822	375,098
Other financial assets ¹	8,133,556	9,147,059
	<u>455,572,572</u>	<u>490,888,495</u>
Off-balance sheet items		
Acceptances and guarantees contracts	7,277,136	8,327,494
Financial guarantee contracts	3,626,532	3,847,390
Commitments	138,590,372	151,797,615
	<u>149,494,040</u>	<u>163,972,499</u>
	<u>₩ 605,066,612</u>	<u>₩ 654,860,994</u>

¹ Due from financial institutions, loans and securities measured at amortized cost and other financial assets are net of allowance.

4.2.4 Credit Risk of Loans

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

The Group assesses expected credit loss on financial asset at amortized cost and financial asset at fair value through other comprehensive income other than financial asset at fair value through profit or loss and recognizes loss allowance. Expected credit losses are a probability-weighted estimate of possible credit losses within certain range by reflecting reasonable and supportable information that is reasonably available at the reporting date without undue cost or effort, including information about past events, current conditions and forecasts of future economic conditions. The Group assesses the expected credit losses for loans categorized in financial assets at amortized cost, and presents it with the name of account 'allowance for loan losses' netting from the related carrying amounts. For the expected credit losses for loans categorized in financial assets at fair value through other comprehensive income, the Group presents it in other comprehensive income.

Loans as of December 31, 2018 and 2019, are classified as follows:

	2018				
	The financial instruments applying 12-month expected credit losses	The financial instruments applying lifetime expected credit losses		Financial instruments not applying expected credit losses	Total
		Non-impaired	Impaired		
(In millions of Korean won)					
Loans at amortized cost¹					
Corporate					
Grade 1	₩ 75,785,147	₩ 2,144,175	₩ 1,638	₩ —	₩ 77,930,960
Grade 2	55,292,251	4,227,041	2,016	—	59,521,308
Grade 3	2,957,463	1,757,607	6,579	—	4,721,649
Grade 4	484,248	965,094	68,271	—	1,517,613
Grade 5	244,593	378,588	1,063,646	—	1,686,827
	<u>134,763,702</u>	<u>9,472,505</u>	<u>1,142,150</u>	<u>—</u>	<u>145,378,357</u>
Retail					
Grade 1	133,946,705	4,411,122	9,180	—	138,367,007
Grade 2	7,819,152	7,497,880	17,767	—	15,334,799
Grade 3	1,718,104	1,559,980	6,694	—	3,284,778
Grade 4	706,797	421,800	13,318	—	1,141,915
Grade 5	14,110	447,064	489,196	—	950,370
	<u>144,204,868</u>	<u>14,337,846</u>	<u>536,155</u>	<u>—</u>	<u>159,078,869</u>
Credit card					
Grade 1	8,411,723	176,312	—	—	8,588,035
Grade 2	4,449,617	587,254	—	—	5,036,871
Grade 3	1,460,344	1,228,087	—	—	2,688,431
Grade 4	6,004	467,012	—	—	473,016
Grade 5	112	148,149	419,444	—	567,705
	<u>14,327,800</u>	<u>2,606,814</u>	<u>419,444</u>	<u>—</u>	<u>17,354,058</u>
	<u>293,296,370</u>	<u>26,417,165</u>	<u>2,097,749</u>	<u>—</u>	<u>321,811,284</u>
Loans at fair value through other comprehensive income					
Corporate					
Grade 1	189,501	25,731	—	—	215,232
Grade 2	128,712	45,878	—	—	174,590
Grade 3	—	—	—	—	—
Grade 4	—	—	—	—	—
Grade 5	—	—	—	—	—
	<u>318,213</u>	<u>71,609</u>	<u>—</u>	<u>—</u>	<u>389,822</u>
	<u>318,213</u>	<u>71,609</u>	<u>—</u>	<u>—</u>	<u>389,822</u>
	<u>₩ 293,614,583</u>	<u>₩26,488,774</u>	<u>₩2,097,749</u>	<u>₩ —</u>	<u>₩322,201,106</u>

¹ Before netting of allowance.

2019

	2019				Total
	The financial instruments applying 12-month expected credit losses	The financial instruments applying lifetime expected credit losses		Financial instruments not applying expected credit losses	
		Non-impaired	Impaired		
(In millions of Korean won)					
Loans at amortized cost¹					
Corporate					
Grade 1	₩ 83,839,707	₩ 2,621,898	₩ 1,000	₩ —	₩ 86,462,605
Grade 2	58,057,809	4,683,445	7,052	—	62,748,306
Grade 3	2,650,199	2,187,662	4,194	—	4,842,055
Grade 4	518,108	900,386	4,605	—	1,423,099
Grade 5	16,648	355,893	805,938	—	1,178,479
	<u>145,082,471</u>	<u>10,749,284</u>	<u>822,789</u>	<u>—</u>	<u>156,654,544</u>
Retail					
Grade 1	146,265,744	3,611,001	8,155	—	149,884,900
Grade 2	7,081,846	4,433,832	29,304	—	11,544,982
Grade 3	2,080,690	1,541,647	11,366	—	3,633,703
Grade 4	185,081	387,811	9,722	—	582,614
Grade 5	10,180	587,448	545,295	—	1,142,923
	<u>155,623,541</u>	<u>10,561,739</u>	<u>603,842</u>	<u>—</u>	<u>166,789,122</u>
Credit card					
Grade 1	8,390,177	96,052	—	—	8,486,229
Grade 2	5,695,069	719,065	—	—	6,414,134
Grade 3	1,558,999	1,161,396	—	—	2,720,395
Grade 4	26,404	390,941	—	—	417,345
Grade 5	350	135,630	474,327	—	610,307
	<u>15,670,999</u>	<u>2,503,084</u>	<u>474,327</u>	<u>—</u>	<u>18,648,410</u>
	<u>316,377,011</u>	<u>23,814,107</u>	<u>1,900,958</u>	<u>—</u>	<u>342,092,076</u>
Loans at fair value through other comprehensive income					
Corporate					
Grade 1	241,524	—	—	—	241,524
Grade 2	133,574	—	—	—	133,574
Grade 3	—	—	—	—	—
Grade 4	—	—	—	—	—
Grade 5	—	—	—	—	—
	<u>375,098</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>375,098</u>
	<u>375,098</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>375,098</u>
	<u>₩ 316,752,109</u>	<u>₩23,814,107</u>	<u>₩1,900,958</u>	<u>₩ —</u>	<u>₩342,467,174</u>

¹ Before netting of allowance.

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

	Range of Probability of Default (%)	Retail	Corporate	Credit Card¹
Grade 1	0.0 ~ 1.0	1 ~ 5 grade	AAA ~ BBB+	0.0 ~ 1.0
Grade 2	1.0 ~ 5.0	6 ~ 8 grade	BBB ~ BB	1.0 ~ 5.0
Grade 3	5.0 ~ 15.0	9 ~ 10 grade	BB- ~ B	5.0 ~ 15.0
Grade 4	15.0 ~ 30.0	11 grade	B- ~ CCC	15.0 ~ 30.0
Grade 5	30.0 ~	12 grade or under	CC or under	30.0 ~

¹ Credit quality of Credit Card loans was graded according to range of probability of default

The quantification of the extent to which collateral and other credit enhancements mitigate credit risk as of December 31, 2018 and 2019, are as follows:

	2018			
	The financial instruments applying 12-month expected credit losses	The financial instruments applying lifetime expected credit losses		Total
		Non-impaired	Impaired	
	(In millions of Korean won)			
Guarantees	₩ 60,473,663	₩ 5,871,980	₩ 151,180	₩ 66,496,823
Deposits and savings	4,200,448	77,024	6,485	4,283,957
Property and equipment	8,644,719	616,318	54,492	9,315,529
Real estate	147,682,808	12,828,076	442,287	160,953,171
	<u>₩ 221,001,638</u>	<u>₩ 19,393,398</u>	<u>₩ 654,444</u>	<u>₩241,049,480</u>
	2019			
	The financial instruments applying 12-month expected credit losses	The financial instruments applying lifetime expected credit losses		Total
		Non-impaired	Impaired	
	(In millions of Korean won)			
Guarantees	₩ 70,183,658	₩ 3,839,736	₩ 179,825	₩ 74,203,219
Deposits and savings	4,478,032	118,221	8,034	4,604,287
Property and equipment	10,014,552	582,109	55,410	10,652,071
Real estate	155,769,901	10,839,595	417,815	167,027,311
	<u>₩ 240,446,143</u>	<u>₩ 15,379,661</u>	<u>₩ 661,084</u>	<u>₩256,486,888</u>

4.2.5 Credit Quality of Securities

Financial investments excluding equity securities that are exposed to credit risk as of December 31, 2018, and 2019 are as follows:

	2018				
	The financial instruments applying 12-month expected credit losses	The financial instruments applying lifetime expected credit losses		Financial instruments not applying expected credit losses	Total
		Non-impaired	Impaired		
	(In millions of Korean won)				
Securities at amortized cost ¹					
Grade 1	₩ 23,524,120	₩ —	₩ —	₩ —	₩23,524,120
Grade 2	120,546	—	—	—	120,546
Grade 3	18,572	—	—	—	18,572
Grade 4	—	—	—	—	—
Grade 5	—	—	—	—	—
	<u>23,663,238</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>23,663,238</u>
Securities measured at fair value through other comprehensive income					
Grade 1	32,498,155	—	—	—	32,498,155
Grade 2	2,740,053	—	—	—	2,740,053
Grade 3	—	—	—	—	—
Grade 4	2,510	—	—	—	2,510
Grade 5	—	—	2,916	—	2,916
	<u>35,240,718</u>	<u>—</u>	<u>2,916</u>	<u>—</u>	<u>35,243,634</u>
	<u>₩ 58,903,956</u>	<u>₩ —</u>	<u>₩ 2,916</u>	<u>₩ —</u>	<u>₩58,906,872</u>

¹ Before netting of allowance

	2019				
	The financial instruments applying 12-month expected credit losses	The financial instruments applying lifetime expected credit losses		Financial instruments not applying expected credit losses	Total
		Non-impaired	Impaired		
	(In millions of Korean won)				
Securities at amortized cost ¹					
Grade 1	₩ 25,147,636	₩ —	₩ —	₩ —	₩25,147,636
Grade 2	157,881	—	—	—	157,881
Grade 3	42,710	—	—	—	42,710
Grade 4	—	—	—	—	—
Grade 5	—	—	—	—	—
	<u>25,348,227</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>25,348,227</u>
Securities measured at fair value through other comprehensive income					
Grade 1	40,206,856	—	—	—	40,206,856
Grade 2	3,337,327	—	—	—	3,337,327
Grade 3	12,665	—	—	—	12,665
Grade 4	—	—	—	—	—
Grade 5	—	—	—	—	—
	<u>43,556,848</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>43,556,848</u>
	<u>₩ 68,905,075</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩68,905,075</u>

¹ Before netting of allowance

The credit qualities of securities, excluding equity securities according to the credit ratings by external rating agencies as of December 31, 2018 and 2019, are as follows:

Credit quality	Domestic				Foreign		
	KIS	NICE P&I	KAP	FnPricing Inc.	S&P	Fitch-IBCA	Moody's
Grade 1	AA0 to AAA	AA0 to AAA	AA0 to AAA	AA0 to AAA	A- to AAA	A- to AAA	A3 to Aaa
Grade 2	A- to AA-	A- to AA-	A- to AA-	A- to AA-	BBB- to BBB+	BBB- to BBB+	Baa3 to Baa1
Grade 3	BBB0 to BBB+	BBB0 to BBB+	BBB0 to BBB+	BBB0 to BBB+	BB to BB+	BB to BB+	Ba2 to Ba1
Grade 4	BB0 to BBB-	BB0 to BBB-	BB0 to BBB-	BB0 to BBB-	B+ to BB-	B+ to BB-	B1 to Ba3
Grade 5	BB- or under	BB- or under	BB- or under	BB- or under	B or under	B or under	B2 or under

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

4.2.6 Credit risk of due from financial institutions

The credit quality of due from financial institutions as of December 31, 2018 and 2019, is classified as follows:

	2018				
	The financial instruments applying 12-month expected credit losses	The financial instruments applying lifetime expected credit losses		Financial instruments not applying expected credit losses	Total
		Non-impaired	Impaired		
(In millions of Korean won)					
Due from financial institutions at amortized cost ¹					
Grade 1	₩ 16,374,868	₩ —	₩ —	₩ —	₩16,374,868
Grade 2	213,903	—	—	—	213,903
Grade 3	608,314	—	—	—	608,314
Grade 4	19,531	—	—	—	19,531
Grade 5	1,691	—	—	—	1,691
	<u>₩ 17,218,307</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩17,218,307</u>
2019					
	The financial instruments applying 12-month expected credit losses	The financial instruments applying lifetime expected credit losses		Financial instruments not applying expected credit losses	Total
		Non-impaired	Impaired		
(In millions of Korean won)					
Due from financial institutions at amortized cost ¹					
Grade 1	₩ 17,292,966	₩ —	₩ —	₩ —	₩17,292,966
Grade 2	149,927	—	—	—	149,927
Grade 3	677,249	—	—	—	677,249
Grade 4	—	—	—	—	—
Grade 5	13,991	13,179	360	—	27,530
	<u>₩ 18,134,133</u>	<u>₩ 13,179</u>	<u>₩ 360</u>	<u>₩ —</u>	<u>₩18,147,672</u>

¹ Before netting of allowance

The credit qualities of due from financial institutions according to the credit ratings by external rating agencies as of December 31, 2018 and 2019 is same as the credit qualities of securities, excluding equity securities.

4.2.7 Credit risk mitigation of derivatives

The quantification of the extent to which derivatives and other credit enhancements mitigate credit risk as of December 31, 2018 and 2019, are as follows:

	2018	2019
	(In millions of Korean won)	
Deposits, savings, securities, etc.	₩460,670	₩802,170
	<u>₩460,670</u>	<u>₩802,170</u>

4.2.8 Credit risk concentration analysis

Details of the Group's loans by jurisdiction as of December 31, 2018 and 2019, are as follows:

	2018						
	Retail	Corporate	Credit card	Total	%	Allowances	Carrying amount
	(In millions of Korean won)						
Korea	₩158,760,865	₩141,864,644	₩17,346,224	₩317,971,733	98.40	₩(2,574,236)	₩315,397,497
Europe	—	649,281	—	649,281	0.20	(512)	648,769
China	—	2,259,202	807	2,260,009	0.70	(20,570)	2,239,439
Japan	106	354,181	60	354,347	0.11	(1,900)	352,447
United States	—	997,321	6,967	1,004,288	0.31	(5,706)	998,582
Others	317,898	597,726	—	915,624	0.28	(6,757)	908,867
	<u>₩159,078,869</u>	<u>₩146,722,355</u>	<u>₩17,354,058</u>	<u>₩323,155,282</u>	<u>100.00</u>	<u>₩(2,609,681)</u>	<u>₩320,545,601</u>
	2019						
	Retail	Corporate	Credit card	Total	%	Allowances	Carrying amount
	(In millions of Korean won)						
Korea	₩166,310,457	₩149,149,657	₩18,642,111	₩334,102,225	97.44	₩(2,363,332)	₩331,738,893
Europe	—	1,118,429	—	1,118,429	0.33	(4,181)	1,114,248
China	—	3,135,501	358	3,135,859	0.91	(20,654)	3,115,205
Japan	101	647,956	81	648,138	0.19	(576)	647,562
United States	—	2,333,269	—	2,333,269	0.68	(9,205)	2,324,064
Others	478,564	1,072,375	5,860	1,556,799	0.45	(10,069)	1,546,730
	<u>₩166,789,122</u>	<u>₩157,457,187</u>	<u>₩18,648,410</u>	<u>₩342,894,719</u>	<u>100.00</u>	<u>₩(2,408,017)</u>	<u>₩340,486,702</u>

¹ The above is the Group's loans at fair value through profit and loss, other comprehensive income or amortized cost.

Details of the Group's industrial corporate loans as of December 31, 2018 and 2019, are as follows:

	2018			
	Loans	%	Allowances	Carrying amount
	(In millions of Korean won)			
Financial institutions	₩ 14,193,442	9.67	₩ (45,473)	₩ 14,147,969
Manufacturing	42,672,986	29.08	(449,406)	42,223,580
Service	61,467,174	41.89	(270,846)	61,196,328
Wholesale & Retail	16,739,852	11.41	(102,197)	16,637,655
Construction	3,282,508	2.24	(291,211)	2,991,297
Public sector	873,281	0.60	(3,301)	869,980
Others	7,493,112	5.11	(93,409)	7,399,703
Total	<u>₩ 146,722,355</u>	<u>100.00</u>	<u>₩ (1,255,843)</u>	<u>₩ 145,466,512</u>

	2019			
	Loans	%	Allowances	Carrying amount
	(In millions of Korean won)			
Financial institutions	₩ 16,405,404	10.42	₩ (14,819)	₩ 16,390,585
Manufacturing	43,265,607	27.48	(394,428)	42,871,179
Service	65,277,701	41.46	(195,205)	65,082,496
Wholesale & Retail	18,593,540	11.81	(99,051)	18,494,489
Construction	3,679,798	2.34	(194,737)	3,485,061
Public sector	1,250,909	0.79	(2,084)	1,248,825
Others	8,984,228	5.70	(56,662)	8,927,566
Total	<u>₩ 157,457,187</u>	<u>100.00</u>	<u>₩ (956,986)</u>	<u>₩ 156,500,201</u>

Types of the Group's retail and credit card loans as of December 31, 2018 and 2019, are as follows:

	2018			
	Loans	%	Allowances	Carrying amount
	(In millions of Korean won)			
Housing	₩ 70,916,004	40.19	₩ (29,369)	₩ 70,886,635
General	88,162,865	49.97	(613,528)	87,549,337
Credit card	17,354,058	9.84	(710,941)	16,643,117
Total	<u>₩ 176,432,927</u>	<u>100.00</u>	<u>₩ (1,353,838)</u>	<u>₩ 175,079,089</u>

	2019			
	Loans	%	Allowances	Carrying amount
	(In millions of Korean won)			
Housing	₩ 78,102,637	42.12	₩ (34,395)	₩ 78,068,242
General	88,686,485	47.83	(676,927)	88,009,558
Credit card	18,648,410	10.05	(739,709)	17,908,701
Total	<u>₩ 185,437,532</u>	<u>100.00</u>	<u>₩ (1,451,031)</u>	<u>₩ 183,986,501</u>

Credit risk concentration of due from financial institutions, securities, excluding equity securities and derivative financial instruments

Details of the Group's credit risk concentration of due from financial institutions, securities, excluding equity securities, and derivative financial instruments as of December 31, 2018 and 2019, are as follows:

	2018			
	Amount	%	Allowances	Carrying amount
(In millions of Korean won)				
Due from financial institutions at amortized cost				
Banking and insurance	₩ 17,218,307	100.00	₩ (2,019)	₩ 17,216,288
	<u>17,218,307</u>	<u>100.00</u>	<u>(2,019)</u>	<u>17,216,288</u>
Due from financial institutions at fair value through profit or loss				
Banking and insurance	381,719	100.00	—	381,719
	<u>381,719</u>	<u>100.00</u>	<u>—</u>	<u>381,719</u>
Securities measured at fair value through profit or loss				
Government and government funded institutions	14,354,157	29.73	—	14,354,157
Banking and insurance	27,273,372	56.48	—	27,273,372
Others	6,657,953	13.79	—	6,657,953
	<u>48,285,482</u>	<u>100.00</u>	<u>—</u>	<u>48,285,482</u>
Derivatives				
Government and government funded institutions	39,290	1.94	—	39,290
Banking and insurance	1,849,078	91.27	—	1,849,078
Others	137,594	6.79	—	137,594
	<u>2,025,962</u>	<u>100.00</u>	<u>—</u>	<u>2,025,962</u>
Securities measured at fair value through other comprehensive income				
Government and government funded institutions	9,504,156	26.97	—	9,504,156
Banking and insurance	21,210,983	60.18	—	21,210,983
Others	4,528,495	12.85	—	4,528,495
	<u>35,243,634</u>	<u>100.00</u>	<u>—</u>	<u>35,243,634</u>
Securities at amortized cost				
Government and government funded institutions	10,321,667	43.62	(25)	10,321,642
Banking and insurance	11,424,418	48.28	(1,399)	11,423,019
Others	1,917,153	8.10	(292)	1,916,861
	<u>23,663,238</u>	<u>100.00</u>	<u>(1,716)</u>	<u>23,661,522</u>
	<u>₩ 126,818,342</u>		<u>₩ (3,735)</u>	<u>₩ 126,814,607</u>

	2019			
	Amount	%	Allowances	Carrying amount
	(In millions of Korean won)			
Due from financial institutions at amortized cost				
Banking and insurance	₩ 18,147,672	100.00	₩ (4,712)	₩ 18,142,960
	<u>18,147,672</u>	<u>100.00</u>	<u>(4,712)</u>	<u>18,142,960</u>
Due from financial institutions at fair value through profit or loss				
Banking and insurance	216,367	100.00	—	216,367
	<u>216,367</u>	<u>100.00</u>	<u>—</u>	<u>216,367</u>
Securities measured at fair value through profit or loss				
Government and government funded institutions	11,937,703	23.53	—	11,937,703
Banking and insurance	32,475,354	64.03	—	32,475,354
Others	6,308,469	12.44	—	6,308,469
	<u>50,721,526</u>	<u>100.00</u>	<u>—</u>	<u>50,721,526</u>
Derivatives				
Government and government funded institutions	7,330	0.23	—	7,330
Banking and insurance	3,003,371	94.13	—	3,003,371
Others	179,972	5.64	—	179,972
	<u>3,190,673</u>	<u>100.00</u>	<u>—</u>	<u>3,190,673</u>
Securities measured at fair value through other comprehensive income				
Government and government funded institutions	16,744,232	38.44	—	16,744,232
Banking and insurance	21,439,272	49.22	—	21,439,272
Others	5,373,344	12.34	—	5,373,344
	<u>43,556,848</u>	<u>100.00</u>	<u>—</u>	<u>43,556,848</u>
Securities at amortized cost				
Government and government funded institutions	11,115,435	43.86	(37)	11,115,398
Banking and insurance	12,279,883	48.44	(1,349)	12,278,534
Others	1,952,909	7.70	(286)	1,952,623
	<u>25,348,227</u>	<u>100.00</u>	<u>(1,672)</u>	<u>25,346,555</u>
	<u>₩ 141,181,313</u>		<u>₩ (6,384)</u>	<u>₩ 141,174,929</u>

Credit risk concentrations of due from financial institutions, securities, excluding equity securities and derivative financial instruments by country

Details of the Group's credit risk concentration of securities, excluding equity securities, and derivative financial instruments by country, as of December 31, 2018, are as follows:

	2018			
	Amount	%	Allowances	Carrying amount
(In millions of Korean won)				
Due from financial institutions at amortized cost				
Korea	₩ 13,497,329	78.39	₩ (338)	₩ 13,496,991
United States	826,660	4.80	(16)	826,644
Others	2,894,318	16.81	(1,665)	2,892,653
Sub-total	17,218,307	100.00	(2,019)	17,216,288
Due from financial institutions at fair value through profit or loss				
Korea	381,719	100.00	—	381,719
Sub-total	381,719	100.00	—	381,719
Securities measured at fair value through profit or loss				
Korea	43,697,736	90.50	—	43,697,736
United States	1,813,902	3.76	—	1,813,902
Others	2,773,844	5.74	—	2,773,844
Sub-total	48,285,482	100.00	—	48,285,482
Derivatives				
Korea	1,024,392	50.56	—	1,024,392
United States	316,482	15.62	—	316,482
France	237,080	11.70	—	237,080
Singapore	109,101	5.39	—	109,101
Japan	97,351	4.81	—	97,351
Others	241,556	11.92	—	241,556
Sub-total	2,025,962	100.00	—	2,025,962
Securities measured at fair value through other comprehensive income				
Korea	33,156,041	94.08	—	33,156,041
United States	1,100,199	3.12	—	1,100,199
Others	987,394	2.80	—	987,394
Sub-total	35,243,634	100.00	—	35,243,634
Securities measured at amortized cost				
Korea	21,175,749	89.49	(1,136)	21,174,613
United States	1,252,426	5.29	(216)	1,252,210
Others	1,235,063	5.22	(364)	1,234,699
Sub-total	23,663,238	100.00	(1,716)	23,661,522
Total	₩126,818,342		₩ (3,735)	₩126,814,607

Due from financial institutions, financial assets at fair value through profit or loss and derivatives that linked to gold price are mostly relevant to financial and insurance industry with high credit ratings.

Details of the Group's credit risk concentration of due from financial institutions, securities, excluding equity securities, and derivative financial instruments by country, as of December 31, 2019, is as follows:

	2019			
	Amount	%	Allowances	Carrying amount
(In millions of Korean won)				
Due from financial institutions at amortized cost				
Korea	₩ 13,864,687	76.40	₩ (555)	₩ 13,864,132
United States	1,318,582	7.27	(1)	1,318,581
Others	2,964,403	16.33	(4,156)	2,960,247
Sub-total	18,147,672	100.00	(4,712)	18,142,960
Due from financial institutions at fair value through profit or loss				
Korea	216,367	100.00	—	216,367
Sub-total	216,367	100.00	—	216,367
Securities measured at fair value through profit or loss				
Korea	46,413,061	91.51	—	46,413,061
United States	1,939,330	3.82	—	1,939,330
Others	2,369,135	4.67	—	2,369,135
Sub-total	50,721,526	100.00	—	50,721,526
Derivatives				
Korea	1,440,349	45.14	—	1,440,349
United States	529,956	16.61	—	529,956
France	358,951	11.25	—	358,951
Others	861,417	27.00	—	861,417
Sub-total	3,190,673	100.00	—	3,190,673
Securities measured at fair value through other comprehensive income				
Korea	40,948,853	94.01	—	40,948,853
United States	687,243	1.58	—	687,243
Others	1,920,752	4.41	—	1,920,752
Sub-total	43,556,848	100.00	—	43,556,848
Securities measured at amortized cost				
Korea	22,591,541	89.12	(1,034)	22,590,507
United States	1,312,941	5.18	(217)	1,312,724
Others	1,443,745	5.70	(421)	1,443,324
Sub-total	25,348,227	100.00	(1,672)	25,346,555
Total	₩141,181,313		₩ (6,384)	₩141,174,929

Due from financial institutions, financial assets at fair value through profit or loss and derivatives that linked to gold price are mostly relevant to financial and insurance industry with high credit ratings.

4.3 Liquidity Risk

4.3.1 Overview of liquidity risk

Liquidity risk is a risk that the Group becomes insolvent due to uncertain liquidity caused by unexpected cash outflows, or a risk of borrowing high interest debts or disposal of liquid and other assets at a substantial discount. The Group manages its liquidity risk through analysis of the contractual maturity of interest-bearing assets and liabilities, assets and liabilities related to the other financing, and off-balance sheet items related to cash flow of currency derivative instruments and others.

Cash flows disclosed for the maturity analysis are undiscounted contractual principal and interest to be received (paid) and; thus, are not identical to the amount in the financial statements that are based on the present value of expected cash flows in some cases. The amount of interest to be received or paid on floating rate assets and liabilities is measured on the assumption that the current interest rate would be the same through the maturity.

4.3.2. Liquidity Risk Management and Indicator

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

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

4.3.3. Analysis of Remaining Contractual Maturity of Financial Assets and Liabilities

Cash flows disclosed below are undiscounted contractual principal and interest to be received (paid) and; thus, are not identical to the amount in the consolidated financial statements that are based on the present value of expected cash flows. The amount of interest to be received or paid on floating rate assets and liabilities is measured on the assumption that the current interest rate would be the same through the maturity.

The remaining contractual maturity of financial assets and liabilities, excluding derivatives held for cash flow hedging, as of December 31, 2018 and 2019, are as follows:

	2018					Total
	On demand	Up to 1 month	1-3 months	3-12 months	Over 5 years	
	(In millions of Korean won)					
Financial assets						
Cash and due from financial institutions ¹	₩ 5,636,123	₩ 1,481,598	₩ 242,353	₩ 538,579	₩ 81,646	₩ 7,980,299
Financial assets at fair value through profit or loss	50,139,812	672,326	162,459	254,632	1,113,694	52,558,359
Derivatives held for trading ²	1,915,532	—	—	—	—	1,915,532
Derivatives held for fair value hedging ³	—	4,344	1,724	17,948	40,830	86,213
Loans at amortized cost	3,180,412	27,520,126	32,374,297	116,479,553	84,600,284	366,944,038
Financial investments ⁴	—	—	—	—	—	—
Financial assets measured at fair value through other comprehensive income	2,117,560	1,812,270	2,694,083	11,210,903	18,626,405	39,189,613
Securities measured at amortized cost	—	1,245,353	1,483,667	4,412,816	8,932,468	30,454,737
Other financial assets	89,890	5,454,381	160,182	1,488,164	53,425	7,283,883
Total	₩ 63,079,329	₩ 38,190,398	₩ 37,118,765	₩ 134,402,595	₩ 112,531,031	₩ 506,412,674
	(In millions of Korean won)					
Financial liabilities						
Financial liabilities at fair value through profit or loss ²	₩ 2,823,820	₩ —	₩ —	₩ —	₩ —	₩ 2,823,820
Financial liabilities designated at fair value through profit or loss ²	12,503,039	—	—	—	—	12,503,039
Derivatives held for trading ²	2,724,994	—	—	—	—	2,724,994
Derivatives held for fair value hedging ³	—	(2,403)	(8,231)	(37,851)	13,831	31
Deposits ⁵	126,781,682	16,852,129	28,053,517	95,568,339	11,284,243	260,863,030
Debts	5,909,297	10,355,022	3,975,372	7,205,116	4,714,743	33,409,335
Debt securities	30,160	1,699,165	5,875,093	13,471,021	32,474,579	56,039,164
Other financial liabilities	91,381	15,943,018	170,851	275,135	581,537	17,127,643
Total	₩ 150,864,373	₩ 44,846,931	₩ 38,066,602	₩ 116,481,760	₩ 49,068,933	₩ 405,741,912
Off-balance sheet items						
Commitments ⁶	₩ 138,590,372	₩ —	₩ —	₩ —	₩ —	₩ 138,590,372
Financial guarantee contract ⁷	3,626,532	—	—	—	—	3,626,532
Total	₩ 142,216,904	₩ —	₩ —	₩ —	₩ —	₩ 142,216,904

¹ The amounts of ₩ 12,394,461 million, which is restricted due from the financial institutions as of December 31, 2018, is excluded.

² Financial liabilities measured or designated at fair value through profit or loss and derivatives held for trading are not managed by contractual maturity because they are expected to be traded or redeemed before maturity. Therefore, the carrying amounts of those financial instruments are classified as 'on demand' category.

³ Cash flows of derivative instruments held for hedging are shown at net cash flow by remaining contractual maturity.

⁴ The equity securities designated as financial assets measured at fair value through other comprehensive income are included under the 'On demand' category as they can be disposed without difficulty. However, the equity securities restricted from disposal are included on the category that the releasing date of restriction is belonged to.

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

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

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

2019

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
(In millions of Korean won)							
Financial assets							
Cash and due from financial institutions ¹	₩ 5,323,332	₩ 1,038,805	₩ 286,091	₩ 822,123	₩ 18,628	₩ —	₩ 7,488,979
Financial assets at fair value through profit or loss	52,488,545	446,069	273,144	187,821	236,130	1,011,289	54,642,998
Derivatives held for trading ²	3,008,598	—	—	—	—	—	3,008,598
Derivatives held for fair value hedging ³	—	4,892	20,216	37,441	41,401	66,176	170,126
Loans at amortized cost	2,908,095	33,042,040	32,668,128	125,125,270	94,802,566	96,757,198	385,303,297
Financial investments ⁴	—	—	—	—	—	—	—
Financial assets measured at fair value through other comprehensive income	2,101,605	526,465	1,403,884	6,761,533	33,604,010	4,506,581	48,904,078
Securities measured at amortized cost	—	1,002,164	2,080,834	5,700,500	7,366,945	15,888,344	32,038,787
Other financial assets	71,528	6,578,005	179,790	1,373,850	40,243	35,927	8,279,343
Total	₩ 65,901,703	₩ 42,638,440	₩ 36,912,087	₩ 140,008,538	₩ 136,109,923	₩ 118,265,515	₩ 539,836,206

2019

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
(In millions of Korean won)							
Financial liabilities							
Financial liabilities at fair value through profit or loss ²	₩ 2,663,327	₩ —	₩ —	₩ —	₩ —	₩ —	₩ 2,663,327
Financial liabilities designated at fair value through profit or loss ²	12,704,826	—	—	—	—	—	12,704,826
Derivatives held for trading ²	2,842,950	—	—	—	—	—	2,842,950
Derivatives held for fair value hedging ³	—	14,764	15,588	1,652	20,044	129	52,177
Deposits ⁵	141,821,986	17,180,492	27,300,542	110,410,809	10,804,440	2,354,504	309,872,773
Debts	7,074,508	12,341,516	3,057,980	8,994,817	4,950,294	1,763,234	38,182,349
Debtentures	22,285	2,652,730	3,812,476	11,062,873	32,477,672	3,515,716	53,543,752
Lease liabilities	256	19,304	35,730	137,419	318,781	66,032	577,522
Other financial liabilities	114,320	17,663,385	187,976	212,059	693,921	119,637	18,991,298
Total	₩ 167,244,458	₩ 49,872,191	₩ 34,410,292	₩ 130,819,629	₩ 49,265,152	₩ 7,819,252	₩ 439,430,974
Off-balance sheet items							
Commitments ⁶	₩ 151,797,615	₩ —	₩ —	₩ —	₩ —	₩ —	₩ 151,797,615
Financial guarantee contract ⁷	3,847,390	—	—	—	—	—	3,847,390
Total	₩ 155,645,005	₩ —	₩ —	₩ —	₩ —	₩ —	₩ 155,645,005

¹ The amounts of ₩ 13,394,627 million, which is restricted due from the financial institutions as of December 31, 2019, is excluded.

² Financial liabilities measured or designated at fair value through profit or loss and derivatives held for trading are not managed by contractual maturity because they are expected to be traded or redeemed before maturity. Therefore, the carrying amounts of those financial instruments are classified as 'on demand' category.

³ Cash flows of derivative instruments held for hedging are shown at net cash flow by remaining contractual maturity.

⁴ The equity securities designated as financial assets measured at fair value through other comprehensive income are included under the 'On demand' category as they can be disposed without difficulty. However, the equity securities restricted from disposal are included on the category that the releasing date of restriction is belonged to.

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

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

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

The contractual cash flows of derivatives held for cash flow hedging as of December 31, 2018 and 2019, are as follows:

	2018					
	Up to	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	1 month					
	(In millions of Korean won)					
Net cash flow of net settlement derivatives	₩ (172)	₩ 1,999	₩ 2,743	₩ 1,949	₩ (66)	₩ 6,453
Cash flow to be received of total settlement derivatives	47,526	129,826	286,219	2,116,253	—	2,579,824
Cash flow to be paid of total settlement derivatives	(50,281)	(137,834)	(286,165)	(2,151,808)	—	(2,626,088)
	2019					
	Up to	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	1 month					
	(In millions of Korean won)					
Net cash flow of net settlement derivatives	₩ (639)	₩ (1,831)	₩ (5,021)	₩ (10,602)	₩ 1,084	₩ (17,009)
Cash flow to be received of total settlement derivatives	14,119	200,170	657,909	1,888,772	—	2,760,970
Cash flow to be paid of total settlement derivatives	(18,171)	(199,141)	(671,375)	(1,955,650)	—	(2,844,337)

4.4 Market Risk

4.4.1 Concept

Market risk represents possible losses which arise from changes in market factors including interest rate, stock price, foreign exchange rate and other market factors that affect the fair value or future cash flows of financial instruments including securities and derivatives amongst others. The most significant risk associated with trading positions interest rate risks, currency risks and also, stock price risks. In addition, the Group is exposed to interest rate risks associated with non-trading positions. The Group classifies exposures to market risk into either trading or non-trading positions. The Group measures and manages market risk separately for each subsidiary.

4.4.2 Risk management

The Group sets internal capital limits for market risk and interest rate risk and monitors the risks to manage the risk of trading and non-trading positions. The Group maintains risk management systems and procedures including trading policies and procedures, and market risk management guidelines for trading positions, and interest rate risk management guidelines for non-trading positions in order to manage market risk efficiently. The procedures mentioned are implemented with approval from the Risk Management Committee and Risk Management Council.

Kookmin Bank, one of the subsidiaries, establishes market risk management policy, sets position limits, loss limits and VaR limits of each business group and approves newly developed instruments through its Risk Management Council. The Market Risk Management Committee, which is chaired by the Chief Risk Officer (CRO), is the decision maker and sets position limits, loss limits, VaR limits, sensitivity limits and scenario loss limits for each division, at the level of each individual business department.

The Asset-Liability Management Committee(ALCO) of Kookmin Bank determines the operational standards of interest and commission, the details of the establishment and prosecution of the Asset Liability Management (ALM) policies and enacts and amends relevant guidelines. The Risk Management Committee and Risk Management Council monitor the establishment and enforcement of ALM risk management policies, and enact and amend ALM risk management guidelines. The interest rate risk limit is set based on the future assets/liabilities position and interest rate volatility estimation reflects the annual work plan. The ALM Department and Risk Management Department measures and monitors the interest risk status and limits on a regular basis. The status and limits of interest rate risks including interest gap, duration gap and interest rate VaR (Value at Risk), are reported to the ALCO and Risk Management Council on a monthly basis and to the Risk Management Committee on a quarterly basis. To ensure adequacy of interest rate and liquidity risk management, the Risk Management Department assigns the limits, monitors and reviews the risk management procedures and tasks conducted by the ALM Department. Also, the Risk Management Department independently reports related information to the management.

4.4.3 Trading Position

Definition of a trading position

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

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

Observation method on market risk arising from trading positions

Subsidiaries of the Group calculate VaR to measure the market risk by using market risk management systems on the entire trading portfolio. Generally, the Group manages market risk on the trading portfolio. In addition, the Group controls and manages the risk of derivative trading based on the regulations and guidelines formulated by the Financial Supervisory Service.

VaR (Value at Risk)

i. VaR (Value at Risk)

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

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

A subsidiary which hold trading positions uses an internal model (VaR) to measure general risk, and a standard method to measure each individual risk. When the internal model is not permitted for certain market risk, the Group uses the standard method. Therefore, the market risk VaR may not reflect the market risk of each individual risk and some specific positions. And also, non-banking subsidiaries use the same standard method applied to measure regulatory capital for improvement of market risk VaR management utility (improvement of relation with regulatory capital).

ii. Back-Testing

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

iii. Stress Testing

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

VaR at a 99% confidence level of interest rate, stock price and foreign exchange rate risk for trading positions with a ten-day holding period by a subsidiary as of December 31, 2018 and 2019, are as follows:

Kookmin Bank

	2018			
	Average	Minimum	Maximum	Ending
Interest rate risk	₩12,513	₩ 6,044	₩18,684	₩ 7,074
Stock price risk	2,995	1,253	4,831	3,348
Foreign exchange rate risk	9,443	5,033	16,453	16,453
Deduction of diversification effect	—	—	—	(11,939)
Total VaR	<u>₩16,221</u>	<u>₩11,653</u>	<u>₩23,078</u>	<u>₩ 14,936</u>
	2019			
	Average	Minimum	Maximum	Ending
Interest rate risk	₩11,190	₩ 1,725	₩20,467	₩ 16,628
Stock price risk	3,434	2,402	4,310	3,914
Foreign exchange rate risk	15,760	11,416	20,704	13,081
Deduction of diversification effect	—	—	—	(13,246)
Total VaR	<u>₩17,545</u>	<u>₩13,641</u>	<u>₩24,849</u>	<u>₩ 20,377</u>

Meanwhile, the required equity capital using the standardized method related to the positions which are not measured by VaR or the non-banking subsidiaries as of December 31, 2018 and 2019, are as follows:

Kookmin Bank

	2018	2019
	(In millions of Korean won)	
Interest rate risk	₩ 112,153	₩ 83,731
Stock price risk	19,756	1,954
Foreign exchange rate risk	1,339	1,850
Total VaR	<u>₩ 133,248</u>	<u>₩ 87,535</u>

KB Securities Co., Ltd.

	2018			
	Average	Minimum	Maximum	Ending
	(In millions of Korean won)			
Interest rate risk	₩456,847	₩366,027	₩537,126	₩510,618
Stock price risk	293,623	236,329	335,900	261,341
Foreign exchange rate risk	5,923	2,383	12,613	3,692
Commodity risk	5	1	22	1
Total VaR	<u>₩756,398</u>	<u>₩604,740</u>	<u>₩885,661</u>	<u>₩775,652</u>

	2019			
	Average	Minimum	Maximum	Ending
	(In millions of Korean won)			
Interest rate risk	₩520,681	₩460,539	₩563,991	₩563,991
Stock price risk	248,183	217,149	282,584	270,443
Foreign exchange rate risk	15,785	7,578	23,674	21,418
Commodity risk	3	1	20	1
Total VaR	<u>₩784,652</u>	<u>₩685,267</u>	<u>₩870,269</u>	<u>₩855,853</u>

KB Insurance Co., Ltd.

	2018			
	Average	Minimum	Maximum	Ending
	(In millions of Korean won)			
Interest rate risk	₩43,431	₩34,202	₩48,456	₩45,180
Foreign exchange rate risk	11,074	8,484	15,053	14,769
Total VaR	<u>₩54,505</u>	<u>₩42,686</u>	<u>₩63,509</u>	<u>₩59,949</u>

	2019			
	Average	Minimum	Maximum	Ending
	(In millions of Korean won)			
Interest rate risk	₩ 3,418	₩ 2,201	₩ 4,904	₩ 3,252
Stock price risk	23,293	16,153	27,550	26,140
Total VaR	<u>₩26,711</u>	<u>₩18,354</u>	<u>₩32,454</u>	<u>₩29,392</u>

KB Life Insurance Co., Ltd.

	2018			
	Average	Minimum	Maximum	Ending
	(In millions of Korean won)			
Interest rate risk	₩1,264	₩ 968	₩ 1,544	₩1,134
Total VaR	₩1,264	₩ 968	₩ 1,544	₩1,134

	2019			
	Average	Minimum	Maximum	Ending
	(In millions of Korean won)			
Interest rate risk	₩2,630	₩ 1,295	₩ 3,597	₩2,038
Total VaR	₩2,630	₩ 1,295	₩ 3,597	₩2,038

KB Investment Co., Ltd.

	2018			
	Average	Minimum	Maximum	Ending
	(In millions of Korean won)			
Stock price risk	₩ 23	₩ —	₩ 56	₩ —
Foreign exchange rate risk	2,064	1,776	3,033	3,033
Total VaR	₩2,087	₩ 1,776	₩ 3,089	₩3,033

	2019			
	Average	Minimum	Maximum	Ending
	(In millions of Korean won)			
Foreign exchange rate risk	₩7,452	₩ 4,072	₩10,480	₩9,988
Total VaR	₩7,452	₩ 4,072	₩10,480	₩9,988

KB Asset Management Co., Ltd.

	2018			
	Average	Minimum	Maximum	Ending
	(In millions of Korean won)			
Interest rate risk	₩ 777	₩ 21	₩ 1,886	₩1,043
Stock price risk	1,658	—	1,952	1,839
Foreign exchange rate risk	782	627	1,125	837
Total VaR	₩3,217	₩ 648	₩ 4,963	₩3,719

	2019			
	Average	Minimum	Maximum	Ending
	(In millions of Korean won)			
Interest rate risk	₩ 417	₩ 202	₩ 1,238	₩ 509
Stock price risk	3,456	1,965	6,248	6,248
Foreign exchange rate risk	825	362	1,427	362
Total VaR	₩4,698	₩ 2,529	₩ 8,913	₩7,119

Details of risk factors

i. Interest rate risk

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

ii. Stock price risk

Stock price risk only arises from trading securities denominated in Korean won as the Group does not have any trading exposure to shares denominated in foreign currencies. The trading securities portfolio in Korean won are composed of exchange-traded stocks and derivative instruments linked to stock with strict limits on diversification.

iii. Foreign exchange rate risk

Foreign exchange rate risk arises from holding assets and liabilities denominated in foreign currency and foreign currency derivatives. Net foreign currency exposure mostly occurs from the foreign assets and liabilities which are denominated in US dollars and Chinese Yuan. The Group sets both loss limits and net foreign currency exposure limits and manages comprehensive net foreign exchange exposures which consider both trading and non-trading portfolios.

4.4.4 Non-trading position

Definition of non-trading position

Managed interest rate risk in non-trading position includes on- or off-balance sheet assets, liabilities and derivatives that are sensitive to interest rate, except trading position for market risk. The interest rate sensitive assets and liabilities are interest-bearing assets and liabilities that create interest income and expenses.

Observation method on market risk arising from non-trading position

As a qualitative methodology, interest rate risk arises from a change in equity and earnings caused by fluctuation in value of interest rate sensitive assets and liabilities, and these risks are measured with change in Economic Value of Equity (Δ EVE) or interest rate VaR and change in Net Interest Income (Δ NII). In addition, as a quantitative methodology, average and longest maturity of interest rate revision for non-maturity deposits are monitored by the Group.

Interest Rate risk levels

i. Subsidiary Kookmin Bank

Kookmin Bank calculates ΔEVE by applying six types of rate shock and crisis scenarios, and ΔNII by applying parallel rise and decline impact scenarios. The results as at December 31, 2019 are as follows:

	2019	
	Changes in the Economic Value of Equity	Changes in Net Interest Income
	(In millions of Korean won)	
Scenario 1 (Parallel rise)	483,207	152,013
Scenario 2 (Parallel decline)	31,718	9,717
Scenario 3 (Short-term decline, long-term rise)	257,756	—
Scenario 4 (Short-term rise, long-term decline)	411,237	—
Scenario 5 (Short-term rise)	378,380	—
Scenario 6 (Short-term decline)	492,047	—
Maximum of Scenarios 1-6	492,047	152,013
Basic capital	27,609,684	—

(*) As of the end of December 2019, interest rate risk was calculated by different method from the previous disclosure due to the revision of the Detailed Supervisory Regulations on Banking Business.

The results of previous method as at December 31, 2018 are as follows:

	2018
	(In millions of Korean won)
Interest Rate VaR	168,282

ii. Non-bank Subsidiaries

Interest rate VaR is the maximum possible loss due to interest rate risk under a normal distribution at a 99.9% confidence level. The measurement results of risk as of December 31, 2018 and 2019, are as follows:

	2018	2019
	(In millions of Korean won)	
KB Securities Co., Ltd.	₩ 23,004	₩ 20,605
KB Insurance Co., Ltd.	270,507	345,292
KB Kookmin Card Co., Ltd.	27,894	49,878
KB Life Insurance Co., Ltd.	47,089	56,214
KB Savings Bank Co., Ltd.	8,760	6,510
KB Capital Co., Ltd.	19,852	33,038

4.4.5 Financial Instruments in Foreign Currencies

Details of financial instruments presented in foreign currencies translated into Korean won as of December 31, 2018 and 2019, are as follows:

	2018						Total
	USD	JPY	EUR	GBP	CNY	Others	
	(In millions of Korean won)						
Financial Assets							
Cash and due from financial institutions . . .	₩ 1,950,546	₩ 417,682	₩ 594,103	₩120,795	₩1,145,607	₩ 679,759	₩ 4,908,492
Financial assets at fair value through profit or loss	6,025,782	87,764	432,047	18,481	8,585	73,759	6,646,418
Derivatives held for trading	163,064	2,947	31,370	308	4,643	18,349	220,681
Derivatives held for hedging	32,996	—	—	—	—	—	32,996
Loans at amortized cost	12,372,434	354,111	807,019	45,335	990,705	515,051	15,084,655
Financial assets measured at fair value through other comprehensive income	3,925,922	36,538	32,842	—	125,571	4,261	4,125,134
Financial assets at amortized cost	2,257,057	—	287,732	—	38,802	27,554	2,611,145
Other financial assets	1,528,235	300,116	24,511	28,080	275,578	234,086	2,390,606
Total	₩28,256,036	₩1,199,158	₩2,209,624	₩212,999	₩2,589,491	₩1,552,819	₩36,020,127
Financial liabilities							
Financial liabilities at fair value through profit or loss	₩ 2,319,369	₩ —	₩ —	₩ —	₩ —	₩ —	₩ 2,319,369
Derivatives held for trading	313,303	39,311	143,836	90	4,062	168,339	668,941
Derivatives held for hedging	88,367	—	—	—	—	—	88,367
Deposits	9,294,189	629,083	592,495	48,418	1,267,102	468,615	12,299,902
Debts	9,427,662	90,778	286,123	220,150	11,393	65,412	10,101,518
Debentures	4,405,842	—	31,979	—	—	266,935	4,704,756
Other financial liabilities	959,797	105,798	136,053	3,659	284,498	159,649	1,649,454
Total	26,808,529	864,970	1,190,486	272,317	1,567,055	1,128,950	31,832,307
Off-balance sheet items	₩15,211,436	₩ 32,619	₩ 1,262	₩ —	₩ 270,018	₩ 228,238	₩15,743,573
2019							
	USD	JPY	EUR	GBP	CNY	Others	Total
	(In millions of Korean won)						
Financial Assets							
Cash and due from financial institutions	₩ 2,581,674	₩ 354,484	₩ 377,651	₩128,600	₩1,207,769	₩ 840,250	₩ 5,490,428
Financial assets at fair value through profit or loss	6,275,426	43,124	610,820	23,034	6,131	149,188	7,107,723
Derivatives held for trading	244,010	22,729	25,226	698	6,786	48,396	347,845
Derivatives held for hedging	83,610	—	—	—	—	—	83,610
Loans at amortized cost	14,478,537	484,087	795,285	178,628	1,205,297	991,445	18,133,279
Financial assets measured at fair value through other comprehensive income	4,643,921	21,267	71,078	—	282,390	39,186	5,057,842
Financial assets at amortized cost	2,380,000	—	304,484	—	97,845	101,958	2,884,287
Other financial assets	1,619,738	230,542	313,363	18,237	186,607	195,691	2,564,178
Total	₩32,306,916	₩1,156,233	₩2,497,907	₩349,197	₩2,992,825	₩2,366,114	₩41,669,192
Financial liabilities							
Financial liabilities at fair value through profit or loss	₩ 2,754,602	₩ —	₩ —	₩ —	₩ —	₩ —	₩ 2,754,602
Derivatives held for trading	351,394	39,050	36,018	—	7,806	67,809	502,077
Derivatives held for hedging	35,538	—	—	—	—	—	35,538
Deposits	12,266,565	766,720	791,638	45,892	1,477,097	560,939	15,908,851
Debts	9,399,828	125,096	419,155	408,918	15,092	247,943	10,616,032
Debentures	5,007,285	—	—	—	—	338,225	5,345,510
Other financial liabilities	2,556,502	60,029	101,289	22,531	190,841	254,876	3,186,068
Total	₩32,371,714	₩ 990,895	₩1,348,100	₩477,341	₩1,690,836	₩1,469,792	₩38,348,678
Off-balance sheet items	₩18,702,327	₩ 32,694	₩ 176,756	₩ —	₩ 252,369	₩ 257,881	₩19,422,027

4.5 Operational Risk

4.5.1 Concept

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

4.5.2 Risk Management

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

4.6. Capital Adequacy

The Group complies with the capital adequacy standard established by the Financial Services Commission. The capital adequacy standard is based on Basel III published by Basel Committee on Banking Supervision in Bank of International Settlements in June 2011 and was implemented in Korea in December 2013. The Group is required to maintain a minimum Common Equity Tier 1 ratio of at least 8.0%(2018: 7.125%), a minimum Tier 1 ratio of :9.5%(2018: 8.625%) and a minimum Total Regulatory Capital of 11.5%(2018:10.625%) as of December 31, 2019.

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

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

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

The Group assesses and monitors its adequacy of capital by using the internal assessment and management policy of the capital adequacy. The assessment of the capital adequacy is conducted by comparing available capital (actual amount of available capital) and internal capital (amount of capital enough to cover all significant risks under target credit rate set by the Group). The Group monitors the soundness of finance and provides risk adjusted basis for performance review using the assessment of the capital adequacy.

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

The Risk Management Council of the Group determines the Group's risk appetite and allocates internal capital by risk type and subsidiary. Each subsidiary efficiently operates its capital within a range of allocated internal capital. The Risk Management Department of the Group monitors the limit on internal capital and reports the results to management and the Risk Management Council. The Group maintains the adequacy of capital through proactive review and approval of the Risk Management Committee when the internal capital is expected to exceed the limits due to new business or business expansion.

Details of the Group's capital adequacy calculation in line with Basel III requirements as of December 31, 2018 and 2019, are as follows:

	2018	2019
	(In millions of Korean won)	
Equity Capital:	₩ 34,476,172	₩ 36,995,181
Tier 1 Capital	32,993,826	35,426,114
Common Equity Tier 1 Capital	32,993,826	34,709,873
Additional Tier 1 Capital	—	716,241
Tier 2 Capital	1,482,346	1,569,067
Risk-weighted assets:	236,099,017	255,549,020
Equity Capital (%):	14.60	14.48
Tier 1 Capital (%)	13.97	13.86
Common Equity Tier 1 Capital (%)	13.97	13.58

5. Segment Information

5.1 Overall Segment Information and Business Segments

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

Banking Business	Corporate Banking	Loans, deposit products and other related financial services to large, small and medium-sized enterprises and SOHO(small office home office)s.
	Retail Banking	Loans, deposit products and other related financial services to individuals and households.
	Other Banking Services	Trading activities in securities and derivatives, funding and other supporting activities.
Securities Business		Investment banking, brokerage services and other supporting activities.
Non-life Insurance Business		The activities within this segment include property insurance and other supporting activities.
Credit Card Business		The activities within this segment include credit sale, cash service, card loan and other supporting activities.
Life Insurance Business		Life insurance and other supporting activities.

Financial information by business segment for the year ended December 31, 2018, is as follows:

	Banking business							Intra-group adjustment	Total		
	Corporate Banking	Retail Banking	Other Banking Services	Sub-total	Securities	Non-life Insurance	Credit Card			Life Insurance	Others
Operating revenues from external customers	₩ 2,318,812	₩ 2,989,240	₩ 1,271,117	₩ 6,579,169	₩ 997,898	₩ 1,183,394	₩ 1,524,695	₩ 113,238	₩ 461,293	₩ —	₩ 10,859,687
Intra-segment operating revenues (expenses)	94,910	—	179,300	274,210	(17,541)	(20,529)	(219,680)	(26,809)	167,789	(157,440)	—
	₩ 2,413,722	₩ 2,989,240	₩ 1,450,417	₩ 6,853,379	₩ 980,357	₩ 1,162,865	₩ 1,305,015	₩ 86,429	₩ 629,082	₩ (157,440)	₩ 10,859,687
Net interest income	2,753,928	2,960,598	386,196	6,100,722	542,206	616,173	1,168,284	185,094	291,415	1,034	8,904,928
Interest income	4,267,675	4,547,615	1,204,598	10,019,888	819,462	616,483	1,474,376	185,109	644,975	(25,724)	13,734,569
Interest expense	(1,513,747)	(1,587,017)	(818,402)	(3,919,166)	(277,256)	(310)	(306,092)	(15)	(353,560)	26,758	(4,829,641)
Net fee and commission income (expense)	287,978	490,447	344,323	1,122,748	625,729	(147,041)	264,651	(13,163)	385,930	4,522	2,243,376
Fee and commission income	381,481	583,213	458,097	1,422,791	734,287	3,238	1,426,436	214	443,455	(312,701)	3,717,720
Fee and commission expense	(93,503)	(92,766)	(113,774)	(300,043)	(108,558)	(150,279)	(1,161,785)	(13,377)	(57,525)	317,223	(1,474,344)
Net insurance income (expense)	—	—	—	—	—	611,277	18,386	(139,400)	1	(148)	490,116
Insurance income	—	—	—	—	—	10,847,323	32,271	1,132,155	—	(36,679)	11,975,070
Insurance expense	—	—	—	—	—	(10,236,046)	(13,885)	(1,271,555)	1	36,531	(11,484,954)
Net gains (losses) on financial instruments at fair value through profit or loss	13,933	—	312,462	326,395	(222,014)	180,808	3,866	62,779	89,059	(89,590)	351,303
Net other operating income (expense)	(642,117)	(461,805)	407,436	(696,486)	34,436	(98,352)	(150,172)	(8,881)	(137,323)	(73,258)	(1,130,036)
General and administrative expenses	(1,091,556)	(1,970,409)	(705,030)	(3,766,995)	(735,227)	(789,443)	(404,927)	(63,406)	(308,559)	150,045	(5,918,512)
Operating profit before provision for credit losses	1,322,166	1,018,831	745,387	3,086,384	245,130	373,422	900,088	23,023	320,523	(7,395)	4,941,175
Reversal (provision) for credit losses	77,224	(179,229)	8,089	(93,916)	(9,993)	(14,392)	(431,032)	(464)	(124,215)	318	(673,694)
Net operating income	1,399,390	839,602	753,476	2,992,468	235,137	359,030	469,056	22,559	196,308	(7,077)	4,267,481
Share of profit (loss) of associates and joint ventures	—	—	49,698	49,698	175	(16)	202	—	3,104	(28,903)	24,260
Net other non-operating income (expense)	(65)	—	44,237	44,172	13,770	8,085	(33,062)	(1,402)	16,465	(38,237)	9,791
Segment profits before income tax	1,399,325	839,602	847,411	3,086,338	249,082	367,099	436,196	21,157	215,877	(74,217)	4,301,532
Income tax expense	(386,764)	(230,891)	(209,485)	(827,140)	(70,222)	(104,667)	(149,623)	(6,332)	(88,372)	6,770	(1,239,586)
Profit for the reporting period	1,012,561	608,711	637,926	2,259,198	178,860	262,432	286,573	14,825	127,505	(67,447)	3,061,946
Profit attributable to shareholders of the Parent Company	1,012,561	608,711	637,926	2,259,198	178,850	262,267	286,599	14,825	126,021	(66,569)	3,061,191
Profit (loss) attributable to non-controlling interests	—	—	—	—	10	165	(26)	—	1,484	(878)	755
Total assets ¹	131,303,734	140,814,393	84,841,131	356,959,258	45,086,292	34,785,551	20,528,951	9,680,379	40,399,287	(27,851,420)	479,588,298
Total liabilities ¹	123,880,329	152,173,062	54,238,001	330,291,392	40,613,424	31,289,705	16,570,282	9,128,148	17,441,868	(1,459,548)	443,875,271

¹ Assets and liabilities of the reporting segments are amounts before intra-segment transaction adjustment.

Financial information by business segment for the year ended December 31, 2019, is as follows:

	Banking business						Total				
	Corporate Banking	Retail Banking	Other Banking Services	Sub-total	Securities	Non-life Insurance		Credit Card	Life Insurance	Others	Intra-group adjustment
Operating revenues from external customers	₩ 2,375,800	₩ 2,979,503	₩ 1,591,323	₩ 6,946,626	₩ 1,113,200	₩ 1,185,600	₩ 1,470,910	₩ 107,404	₩ 608,111	₩ —	₩ 11,431,851
Intra-segment operating revenues (expenses)	204,476	—	167,966	372,442	(18,795)	(54,160)	(209,874)	(22,742)	124,857	(191,728)	—
	₩ 2,580,276	₩ 2,979,503	₩ 1,759,289	₩ 7,319,068	₩ 1,094,405	₩ 1,131,440	₩ 1,261,036	₩ 84,662	₩ 732,968	₩ (191,728)	₩ 11,431,851
Net interest income	2,844,880	3,148,061	370,846	6,363,787	529,888	616,378	1,230,288	159,248	296,512	686	9,196,787
Interest income	4,642,555	4,872,937	1,264,456	10,779,948	852,153	617,617	1,581,178	159,463	687,823	(38,995)	14,639,187
Interest expense	(1,797,675)	(1,724,876)	(893,610)	(4,416,161)	(322,265)	(1,239)	(350,890)	(215)	(391,311)	39,681	(5,442,400)
Net fee and commission income (expense)	349,393	471,869	312,034	1,133,296	580,435	(152,597)	261,829	(16,792)	541,343	7,490	2,355,004
Fee and commission income	459,879	577,845	445,638	1,483,362	683,600	11,095	1,406,273	239	617,622	(322,944)	3,879,247
Fee and commission expense	(110,486)	(105,976)	(133,604)	(350,066)	(103,165)	(163,692)	(1,144,444)	(17,031)	(76,279)	330,434	(1,524,243)
Net insurance income (expense)	—	—	—	—	—	415,112	15,748	(122,295)	—	(9,053)	299,512
Insurance income	—	—	—	—	—	11,375,543	28,874	942,662	—	(29,897)	12,317,182
Insurance expense	—	—	—	—	—	(10,960,431)	(13,126)	(1,064,957)	—	20,844	(12,017,670)
Net gains (losses) on financial instruments at fair value through profit or loss	(2,526)	—	425,150	422,624	(103,815)	265,187	371	66,773	137,680	(144,948)	643,872
Net other operating income (expense)	(611,471)	(640,427)	651,259	(600,639)	87,897	(12,640)	(247,200)	(2,272)	(242,567)	(45,903)	(1,063,324)
General and administrative expenses	(1,241,721)	(1,982,375)	(663,323)	(3,887,419)	(757,276)	(843,800)	(441,921)	(66,514)	(373,919)	99,832	(6,271,017)
Operating profit before provision for credit losses	1,338,555	997,128	1,095,966	3,431,649	337,129	287,640	819,115	18,148	359,049	(91,896)	5,160,834
Reversal (provision) for credit losses	125,919	(235,995)	6,546	(103,530)	(14,366)	12,959	(439,765)	3,084	(128,331)	(236)	(670,185)
Net operating income	1,464,474	761,133	1,102,512	3,328,119	322,763	300,599	379,350	21,232	230,718	(92,132)	4,490,649
Share of profit (loss) of associates and joint ventures	—	—	29,240	29,240	(103)	(21)	1,106	—	7,201	(20,972)	16,451
Net other non-operating income (expense)	(262)	—	(38,625)	(38,887)	30,518	26,490	3,362	(30)	34,644	(29,211)	26,886
Segment profits before income tax	1,464,212	761,133	1,093,127	3,318,472	353,178	327,068	383,818	21,202	272,563	(142,315)	4,533,986
Income tax expense	(404,426)	(209,311)	(265,656)	(879,393)	(95,271)	(92,381)	(67,262)	(5,238)	(90,366)	9,124	(1,220,787)
Profit for the reporting period	1,059,786	551,822	827,471	2,439,079	257,907	234,687	316,556	15,964	182,197	(133,191)	3,313,199
Profit attributable to shareholders of the Parent Company	1,059,786	551,822	827,471	2,439,079	257,893	234,326	316,545	15,964	179,783	(131,762)	3,311,828
Profit (loss) attributable to non-controlling interests	—	—	—	—	14	361	11	—	2,414	(1,429)	1,371
Total assets ¹	139,496,393	147,468,173	100,460,472	387,425,038	47,816,512	36,552,368	22,990,115	9,801,904	42,140,936	(28,188,756)	518,538,117
Total liabilities ¹	142,063,122	161,834,984	54,522,699	358,420,805	43,131,858	32,689,460	18,925,195	9,186,567	18,675,585	(1,610,678)	479,418,792

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

5.2 Services and Geographical Segments

5.2.1 Services information

Operating revenues from external customers for each service for the year ended December 31, 2017, 2018 and 2019, are as follows:

	2017	2018	2019
	(In millions of Korean won)		
Banking service	₩ 6,245,316	₩ 6,579,169	₩ 6,946,626
Securities service	1,074,365	997,898	1,113,200
Non-life insurance service	1,121,108	1,183,394	1,185,600
Credit card service	1,276,803	1,524,695	1,470,910
Life insurance service	129,513	113,238	107,404
Other service	345,077	461,293	608,111
Total	<u>₩10,192,182</u>	<u>₩10,859,687</u>	<u>₩11,431,851</u>

5.2.2 Geographical information

Geographical operating revenues from external customers for the year ended December 31, 2017, 2018 and 2019, and major non-current assets as of December 31, 2017, 2018 and 2019, are as follows:

	2017		2018		2019	
	Revenues from external customers	Major non-current assets	Revenues from external customers	Major non-current assets	Revenues From external customers	Major non-current assets
	(In millions of Korean won)					
Domestic	₩10,078,253	₩7,472,597	₩10,666,586	₩8,114,196	₩11,142,264	₩ 9,515,220
United States	17,596	363,330	46,391	370,252	72,945	386,724
New Zealand	5,855	57	6,213	72	6,946	3,516
China	44,531	4,585	94,996	5,454	109,574	15,119
Cambodia	7,475	1,753	11,062	3,733	19,534	7,162
United Kingdom	11,547	319	8,119	537	10,037	85,634
Others	26,925	78,142	26,320	584,466	70,551	551,039
Intra-group adjustment	—	72,455	—	69,011	—	68,764
Total	<u>₩10,192,182</u>	<u>₩7,993,238</u>	<u>₩10,859,687</u>	<u>₩9,147,721</u>	<u>₩11,431,851</u>	<u>₩10,633,178</u>

6. Financial Assets and Financial Liabilities

6.1 Classification and Fair Value of Financial Instruments

6.1.1 Carrying amount and fair value of financial assets and liabilities as of December 31, 2018 and 2019, are as follows:

	2018	
	Carrying amount	Fair value
(In millions of Korean won)		
Financial assets		
Cash and due from financial institutions	₩ 20,274,490	₩ 20,271,261
Financial assets at fair value through profit or loss	50,987,847	50,987,847
Due from financial institutions	381,719	381,719
Debt securities	48,285,482	48,285,482
Equity securities	1,287,662	1,287,662
Loans	954,176	954,176
Others	78,808	78,808
Derivatives held for trading	1,915,532	1,915,532
Derivatives held for hedging	110,430	110,430
Loans at amortized cost	319,201,603	320,003,844
Securities measured at amortized cost	23,661,522	24,159,137
Financial assets measured at fair value through other comprehensive income	38,003,572	38,003,572
Debt securities	35,243,634	35,243,634
Equity securities	2,370,116	2,370,116
Loans	389,822	389,822
Others	8,133,556	8,133,556
Total	<u>₩462,288,552</u>	<u>₩463,585,179</u>
Financial liabilities		
Financial liabilities at fair value through profit or loss	₩ 2,823,820	₩ 2,823,820
Financial liabilities designated at fair value through profit or loss	12,503,039	12,503,039
Derivatives held for trading	2,724,994	2,724,994
Derivatives held for hedging	176,253	176,253
Deposits	276,770,449	277,423,194
Debts	33,004,834	33,028,205
Debentures	53,278,697	53,771,564
Other financial liabilities	19,828,307	19,833,885
Total	<u>₩401,110,393</u>	<u>₩402,284,954</u>

	2019	
	Carrying amount	Fair value
	(In millions of Korean won)	
Financial assets		
Cash and due from financial institutions	₩ 20,837,878	₩ 20,835,235
Financial assets at fair value through profit or loss	53,549,086	53,549,086
Due from financial institutions	216,367	216,367
Debt securities	50,721,526	50,721,526
Equity securities	2,103,843	2,103,843
Loans	427,545	427,545
Others	79,805	79,805
Derivatives held for trading	3,008,598	3,008,598
Derivatives held for hedging	182,075	182,075
Loans at amortized cost	339,684,059	340,836,884
Securities measured at amortized cost	25,346,555	26,570,494
Financial assets measured at fair value through other comprehensive income	46,436,051	46,436,051
Debt securities	43,556,848	43,556,848
Equity securities	2,504,105	2,504,105
Loans	375,098	375,098
Others	9,147,059	9,147,059
Total	<u>₩498,191,361</u>	<u>₩500,565,482</u>
Financial liabilities		
Financial liabilities at fair value through profit or loss	₩ 2,663,327	₩ 2,663,327
Financial liabilities designated at fair value through profit or loss	12,704,826	12,704,826
Derivatives held for trading	2,842,950	2,842,950
Derivatives held for hedging	164,391	164,391
Deposits	305,592,771	306,048,291
Debts	37,818,860	37,808,944
Debentures	50,935,583	51,558,748
Other financial liabilities	22,629,587	22,629,587
Total	<u>₩435,352,295</u>	<u>₩436,421,064</u>

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

Methods of determining fair value for financial instruments are as follows:

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

6.1.2 Fair value hierarchy

The Group believes that valuation methods used for measuring the fair values of financial instruments are reasonable and that the fair values recognized in the statements of financial position are appropriate. However, the fair values of the financial instruments recognized in the statements of financial position may be different if other valuation methods or assumptions are used. Additionally, as there is a variety of valuation techniques and assumptions used in measuring fair value, it may be difficult to reasonably compare the fair value with that of other financial institutions.

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

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

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

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

When the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgment, taking into account factors specific to the asset or liability. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

Fair value hierarchy of financial assets and liabilities measured at fair value in the statements of financial position

The fair value hierarchy of financial assets and liabilities measured at fair value in the statements of financial position as of December 31, 2018 and 2019, is as follows:

	2018			
	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
	(In millions of Korean won)			
Financial assets				
Financial assets at fair value through profit or loss				
Due from financial institutions	₩ —	₩ 332,976	₩ 48,743	₩ 381,719
Debt securities	11,312,317	29,879,850	7,093,315	48,285,482
Equity securities	737,808	178,309	371,545	1,287,662
Loans	—	740,973	213,203	954,176
Others	78,808	—	—	78,808
Sub-total	<u>12,128,933</u>	<u>31,132,108</u>	<u>7,726,806</u>	<u>50,987,847</u>
Derivatives held for trading	67,436	1,737,033	111,063	1,915,532
Derivatives held for hedging	—	110,430	—	110,430
Financial assets measured at fair value through other comprehensive income				
Debt securities	9,542,948	25,700,686	—	35,243,634
Equity securities	971,367	66,031	1,332,718	2,370,116
Loans	—	389,822	—	389,822
Sub-total	<u>10,514,315</u>	<u>26,156,539</u>	<u>1,332,718</u>	<u>38,003,572</u>
Total	<u>₩22,710,684</u>	<u>₩59,136,110</u>	<u>₩ 9,170,587</u>	<u>₩91,017,381</u>
Financial liabilities				
Financial liabilities at fair value through profit or loss				
	₩ 2,823,820	₩ —	₩ —	₩ 2,823,820
Financial liabilities designated at fair value through profit or loss				
	126	1,629,530	10,873,383	12,503,039
Derivatives held for trading	479,264	1,834,536	411,194	2,724,994
Derivatives held for hedging	—	176,253	—	176,253
Total	<u>₩ 3,303,210</u>	<u>₩ 3,640,319</u>	<u>₩11,284,577</u>	<u>₩18,228,106</u>

	2019			
	Fair value hierarchy			Total
	Level 1	Level 2	Level 3(*)	
(In millions of Korean won)				
Financial assets				
Financial assets at fair value through profit or loss				
Due from financial institutions	₩ —	₩ 165,242	₩ 51,125	₩ 216,367
Debt securities	9,853,733	30,735,027	10,132,766	50,721,526
Equity securities	1,244,178	336,389	523,276	2,103,843
Loans	—	239,412	188,133	427,545
Others	79,805	—	—	79,805
Sub-total	<u>11,177,716</u>	<u>31,476,070</u>	<u>10,895,300</u>	<u>53,549,086</u>
Derivatives held for trading	72,983	2,398,831	536,784	3,008,598
Derivatives held for hedging	—	182,075	—	182,075
Financial assets measured at fair value through other comprehensive income				
Debt securities	14,236,566	29,320,282	—	43,556,848
Equity securities	952,427	69,280	1,482,398	2,504,105
Loans	—	375,098	—	375,098
Sub-total	<u>15,188,993</u>	<u>29,764,660</u>	<u>1,482,398</u>	<u>46,436,051</u>
Total	<u>₩26,439,692</u>	<u>₩63,821,636</u>	<u>₩12,914,482</u>	<u>₩103,175,810</u>
Financial liabilities				
Financial liabilities at fair value through profit or loss				
	₩ 2,663,327	₩ —	₩ —	₩ 2,663,327
Financial liabilities designated at fair value through profit or loss				
	492	1,482,302	11,222,032	12,704,826
Derivatives held for trading	157,634	2,458,498	226,818	2,842,950
Derivatives held for hedging	—	164,391	—	164,391
Total	<u>₩ 2,821,453</u>	<u>₩ 4,105,191</u>	<u>₩11,448,850</u>	<u>₩ 18,375,494</u>

(*) Includes the KB Securities Co., Ltd.'s over-the-counter (OTC) derivatives consist of ₩ 2,459,478 million of financial assets at fair value through profit or loss-debt instruments, ₩ 11,222,032 million of financial liabilities at fair value through profit or loss, ₩ 536,714 of derivative financial assets and ₩ 226,333 of derivative financial liabilities.

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

Financial assets and liabilities measured at fair value classified as Level 2 in the statements of financial position as of December 31, 2018 and 2019, are as follows:

		2018		
		Fair value	Valuation techniques	Inputs
		(In millions of Korean won)		
Financial assets				
Financial assets at fair value through profit or loss				
Due from financial institutions	₩ 332,976	One factor Hull-White Model, DCF Model	Discount rate, Volatility and others	
Debt securities	29,879,850	DCF Model, Closed Form, Monte Carlo Simulation, Black-Scholes Model, Hull and White Model, Net Asset Value and others	Projected cash flow, Fair value of underlying asset, Dividend yield, Interest rate, Underlying asset price, Discount rate, Volatility and others	
Equity securities	178,309	DCF Model	Interest rate, Discount rate and others	
Loans	740,973	DCF Model	Interest rate, Discount rate and others	
Sub-total	<u>31,132,108</u>			
Derivatives held for trading	1,737,033	DCF Model, FDM, Closed Form, Option Model, Monte Carlo Simulation, Black-Scholes Model, Hull and White Model and others	Underlying asset Index, Discount rate, Volatility, Foreign exchange rate, Stock price, Dividend rate and others	
Derivatives held for hedging	110,430	DCF Model, Closed Form, FDM	Discount rate, Volatility, Foreign exchange rate and Others	
Financial assets measured at fair value through other comprehensive income				
Debt securities	25,700,686	DCF Model, Option model, Market value approach	Discount rate, Underlying asset Index, Volatility, Interest rate and others	
Equity securities	66,031	DCF Model, Black-Scholes Model	Discount rate, Volatility, Price of Underlying asset and others	
Loans	389,822	DCF Model	Discount rate	
Sub-total	<u>26,156,539</u>			
Total	<u>₩59,136,110</u>			
Financial liabilities				
Financial liabilities designated at fair value through profit or loss				
	₩ 1,629,530	DCF Model, Closed Form, Monte Carlo Simulation, Black-Scholes Model, Hull and White Model and others	Price of Underlying asset, Discount rate, Dividend rate, Volatility	
Derivatives held for trading	1,834,536	DCF Model, Closed Form, FDM and others	Discount rate, Price of Underlying asset, Volatility, Foreign exchange rate, Credit Spread, Stock price and others	
Derivatives held for hedging	176,253	DCF Model, Closed Form, FDM and others	Discount rate, Volatility, Foreign exchange rate and others	
Total	<u>₩ 3,640,319</u>			

2019

	Fair value	Valuation techniques	Inputs
(In millions of Korean won)			
Financial assets			
Financial assets at fair value through profit or loss			
Due from financial institutions	₩ 165,242	DCF Model, One factor Hull-White Model,	Discount rate, Volatility and others
Debt securities	30,735,027	DCF Model, Closed Form, Monte Carlo Simulation, Black-Scholes Model, Hull and White Model, Net Asset Value and others	Projected cash flow, Fair value of underlying asset, Dividend yield, Interest rate, Underlying asset price, Correlation coefficient, Discount rate, Volatility and others
Equity securities	336,389	DCF Model	Interest rate, Discount rate and others
Loans	239,412	DCF Model	Interest rate, Discount rate and others
Sub-total	<u>₩31,476,070</u>		
Derivatives held for trading	2,398,831	DCF Model, FDM, Closed Form, Option Model, Monte Carlo Simulation, Black-Scholes Model, Hull and White Model and others	Underlying asset Index, Discount rate, Volatility, Correlation coefficient, Interest rate, PD, Credit Spread, Foreign exchange rate, Stock price, Dividend rate and others
Derivatives held for hedging	182,075	DCF Model, Closed Form, FDM	Discount rate, Volatility, Foreign exchange rate and Others
Financial assets measured at fair value through other comprehensive income			
Debt securities	29,320,282	DCF Model, Option model, Market value approach	Discount rate, Underlying asset Index, Volatility, and others
Equity securities	69,280	DCF Model, Black-Scholes Model	Discount rate, Underlying asset Index, Volatility, and others
Loans	375,098	DCF Model, Option Model	Discount rate, Underlying asset Index, Volatility, and others
Sub-total	<u>29,764,660</u>		
Total	<u>₩63,821,636</u>		
Financial liabilities			
Financial liabilities designated at fair value through profit or loss			
	₩ 1,482,302	DCF Model, Closed Form, Monte Carlo Simulation, Black-Scholes Model, Hull and White Model and others	Price of Underlying asset, interest rate, Discount rate, Dividend rate, Volatility and others
Derivatives held for trading	2,458,498	DCF Model, Closed Form, FDM, Monte Carlo Simulation, Black-Scholes Model, Hull and White Model, Option Model and others	Discount rate, Underlying asset Index, Volatility, Correlation coefficient, Interest rate, Stock price, Foreign exchange rate, Dividend rate, PD, Credit Spread, and others
Derivatives held for hedging	164,391	DCF Model, Closed Form, FDM and others	Discount rate, Volatility, Foreign exchange rate and others
Total	<u>₩ 4,105,191</u>		

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

The fair value hierarchy of financial assets and liabilities whose fair values are disclosed as of December 31, 2018 and 2019, are as follows:

	2018			
	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
	(In millions of Korean won)			
Financial assets				
Cash and due from financial institutions ¹	₩ 3,338,863	₩ 14,632,352	₩ 2,300,046	₩ 20,271,261
Loans at amortized cost	—	493,773	319,510,071	320,003,844
Securities measured at amortized cost	8,629,708	15,529,429	—	24,159,137
Other financial assets ²	—	—	8,133,556	8,133,556
Total	<u>₩11,968,571</u>	<u>₩ 30,655,554</u>	<u>₩329,943,673</u>	<u>₩372,567,798</u>
Financial liabilities				
Deposits ¹	₩ —	₩127,265,703	₩150,157,491	₩277,423,194
Debts ³	—	1,114,900	31,913,305	33,028,205
Debentures	—	48,680,196	5,091,368	53,771,564
Other financial liabilities ⁴	—	—	19,833,885	19,833,885
Total	<u>₩ —</u>	<u>₩177,060,799</u>	<u>₩206,996,049</u>	<u>₩384,056,848</u>

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

² Other financial assets of ₩ 8,133,556 million included in Level 3 are the carrying amounts which are reasonable approximation of fair values as of December 31, 2018.

³ Debts of ₩ 38,403 million included in Level 2 is the carrying amounts which are reasonable approximation of fair values as of December 31, 2018.

⁴ Other financial liabilities of ₩ 19,250,252 million included in Level 3 is the carrying amounts which are reasonable approximations of fair values as of December 31, 2018.

	2019			
	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
(In millions of Korean won)				
Financial assets				
Cash and due from financial institutions ¹	₩ 3,015,104	₩ 13,812,640	₩ 4,007,491	₩ 20,835,235
Loans at amortized cost	—	372,988	340,463,896	340,836,884
Securities measured at amortized cost	9,587,770	16,979,656	3,068	26,570,494
Other financial assets ²	—	—	9,147,059	9,147,059
Total	<u>₩12,602,874</u>	<u>₩ 31,165,284</u>	<u>₩353,621,514</u>	<u>₩397,389,672</u>
Financial liabilities				
Deposits ¹	₩ —	₩142,021,800	₩164,026,491	₩306,048,291
Debts ³	—	1,469,263	36,339,681	37,808,944
Debentures	—	46,969,992	4,588,756	51,558,748
Other financial liabilities ⁴	—	—	22,629,587	22,629,587
Total	<u>₩ —</u>	<u>₩190,461,055</u>	<u>₩227,584,515</u>	<u>₩418,045,570</u>

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

² Other financial assets included in Level 3 are the carrying amounts which are reasonable approximation of fair values as of December 31, 2019.

³ Debts of ₩ 4,685 million included in Level 2 is the carrying amounts which are reasonable approximation of fair values as of December 31, 2019.

Valuation techniques and the inputs used in the fair value measurement

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

Valuation techniques and inputs of financial assets and liabilities whose fair values are disclosed and classified as Level 2 as of December 31, 2018 and 2019, are as follows:

	2018		
	Fair value	Valuation technique	Inputs
(In millions of Korean won)			
Financial assets			
Loans at amortized cost	₩ 493,773	DCF Model	Discount rate
Securities measured at amortized cost	15,529,429	DCF Model	Discount rate
Financial liabilities			
Debts	1,076,497	DCF Model	Discount rate
Debentures	48,680,196	DCF Model	Discount rate
	2019		
	Fair value	Valuation technique	Inputs
(In millions of Korean won)			
Financial assets			
Loans at amortized cost	₩ 372,988	DCF Model	Discount rate
Securities measured at amortized cost	16,979,656	DCF Model, Monte Carlo Simulation	Discount rate, Interest rate
Financial liabilities			
Debts	1,464,578	DCF Model	Discount rate
Debentures	46,969,992	DCF Model	Discount rate

Valuation techniques and inputs of financial assets and liabilities whose fair values are disclosed and classified as Level 3 as of December 31, 2018 and 2019, are as follows:

	2018		
	Fair value	Valuation technique	Inputs
(In millions of Korean won)			
Financial assets			
Cash and due from financial institutions	₩ 2,300,046	DCF Model	Credit spread, Other spread, Interest rates
Loans at amortized cost	319,510,071	DCF Model	Credit spread, Other spread, Early termination ratio, Interest rates
Total	<u>₩321,810,117</u>		
Financial liabilities			
Deposits	₩150,157,491	DCF Model	Other spread, Interest rates, Early termination ratio
Debts	31,913,305	DCF Model	Other spread, Interest rates
Debentures	5,091,368	DCF Model	Other spread, Interest rates
Other financial liabilities	583,633	DCF Model	Other spread, Interest rates
Total	<u>₩187,745,797</u>		

2019			
	Fair value	Valuation technique	Inputs
(In millions of Korean won)			
Financial assets			
Cash and due from financial institutions	₩ 4,007,491	DCF Model	Credit spread, Other spread, Interest rates
Loans at amortized cost	340,463,896	DCF Model	Credit spread, Other spread, Early termination ratio, Interest rates
Securities at amortized cost	3,068	DCF Model	Interest rates
Total	<u>₩344,474,455</u>		
Financial liabilities			
Deposits	₩164,026,491	DCF Model	Other spread, Interest rates, Early termination ratio
Debts	36,339,681	DCF Model	Other spread, Interest rates
Debentures	4,588,756	DCF Model	Other spread, Interest rates
Total	<u>₩204,954,928</u>		

6.2 Level 3 of the Fair Value Hierarchy Disclosure

6.2.1 Valuation policy and process for fair value measurement categorized within Level 3

The Group uses external, independent and qualified third-party valuation service in addition to internal valuation models to determine the fair value of the Group's assets at the end of every reporting period.

Where a reclassification between the levels of the fair value hierarchy occurs for a financial asset or liability, the Group's policy is to recognize such transfers as having occurred at the beginning of the reporting period.

6.2.2 Changes in fair value (Level 3) measured using valuation technique based on unobservable in market

Details of changes in Level 3 of the fair value hierarchy for the years ended December 31, 2018 and 2019, are as follows:

	2018						
	Financial assets at fair value through profit or loss		Financial investments	Financial liabilities at fair value through profit or loss	Net derivative financial instruments		
	Cash and due from financial institutions at fair value through profit or loss	Securities measured at fair value through profit or loss	Loans at fair value through profit or loss	Financial assets measured at fair value through comprehensive income	Financial liabilities designated at fair value through profit or loss	Derivatives held for trading	Derivatives held for fair value hedging
Beginning ²	₩ 48,243	₩ 6,106,716	₩ 133,309	₩ 1,187,217	₩ (8,687,892)	₩ 96,354	₩ 705
Total gains or losses							
—Profit or loss	537	178,569	4,367	—	27,583	(247,194)	(116)
—Other comprehensive income	(37)	60,624	—	142,415	(8,597)	—	—
Purchases	—	3,011,701	184,655	83,566	—	7,706	—
Sales	—	(1,855,118)	(109,128)	(80,480)	—	(90,270)	—
Issues	—	—	—	—	(11,090,504)	(76,519)	—
Settlements	—	—	—	—	8,886,027	12,803	(589)
Transfers into Level 3 ¹	—	2,103	—	—	—	(3,011)	—
Transfers out of Level 3 ¹	—	(39,735)	—	—	—	—	—
Ending	₩ 48,743	₩ 7,464,860	₩ 213,203	₩ 1,332,718	₩ (10,873,383)	₩(300,131)	₩ —

¹ The changes in levels for the financial instruments occurred due to the change in the availability of observable market data.

² Prepared in accordance with IFRS 9.

2019

	Financial assets at fair value through profit or loss		Financial investments		Financial liabilities at fair value through profit or loss		Net derivative financial instruments	
	Cash and due from financial institutions at fair value through profit or loss	Securities measured at fair value through profit or loss	Loans at fair value through profit or loss	Financial assets measured at fair value through comprehensive income	Financial liabilities designated at fair value through profit or loss	Derivatives held for trading	Derivatives held for fair value hedging	
	(In millions of Korean won)							
Beginning	₩ 48,743	₩ 7,464,860	₩ 213,203	₩ 1,332,718	₩ (10,873,383)	₩(300,131)	₩ —	—
Total gains or losses								
—Profit or loss	1,207	(66,208)	10,412	—	(1,285,157)	851,453	—	—
—Other comprehensive income	1,175	111,826	—	55,993	(25,538)	—	—	—
Purchases	—	4,544,254	154,005	95,359	—	—	—	—
Sales	—	(2,139,174)	(189,487)	(1,672)	—	(163,856)	—	—
Issues	—	—	—	—	(12,416,402)	(59,202)	—	—
Settlements	—	—	—	—	13,378,448	(1,316)	—	—
Transfers into Level 3 ¹	—	851,457	—	—	—	(16,982)	—	—
Transfers out of Level 3 ¹	—	(110,973)	—	—	—	—	—	—
Ending	₩ 51,125	₩ 10,656,042	₩ 188,133	₩ 1,482,398	₩ (11,222,032)	₩ 309,966	₩ —	—

¹ The changes in levels for the financial instruments occurred due to the change in the availability of observable market data.

In relation to changes in Level 3 of the fair value hierarchy, total gains or losses recognized in profit or loss for the period, and total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period in the statements of comprehensive income for the years ended December 31, 2017, 2018 and 2019, are as follows:

	2017		
	Net income(loss) from financial investments at fair value through profit or loss	Other operating income(loss)	Net interest income
	(In millions of Korean won)		
Total gains or losses included in profit or loss for the period	₩ (289,141)	₩ (21,235)	₩ —
Total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period	48,333	(90,103)	—
	2018		
	Net income(loss) from financial investments at fair value through profit or loss	Other operating income(loss)	Net interest income
	(In millions of Korean won)		
Total gains or losses included in profit or loss for the period	₩ (36,466)	₩ (405)	₩ 617
Total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period	144,674	(289)	43
	2019		
	Net income(loss) from financial investments at fair value through profit or loss	Other operating income(loss)	Net interest income
	(In millions of Korean won)		
Total gains or losses included in profit or loss for the period	₩ (489,703)	₩ 1,388	₩ 22
Total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period	(37,668)	1,331	—

6.2.3 Sensitivity Analysis of Changes in Unobservable Inputs

Information about fair value measurements using unobservable inputs as of December 31, 2018 and 2019, are as follows:

		2018			
	Fair value (In millions of Korean won)	Valuation technique	Unobservable inputs	Range of unobservable inputs(%)	Relationship of unobservable inputs to fair value
Financial assets					
Financial assets at fair value through profit or loss					
Cash and due from financial institutions	₩ 48,743	Option Model	Volatility of the underlying asset Correlation	11.25~31.28 8.79	The higher the volatility, the higher the fair value fluctuation The higher the correlation, the higher the fair value fluctuation
Debt securities	7,093,315	DCF Model, Closed Form, FDM, Monte Carlo Simulation, Hull-White Model, Black-Scholes Model, Option Model, Tree Model, Net Asset Value, Income approach, Market approach and others	Growth rate Volatility of the underlying asset Volatility of real estate price Discount rate Recovery rate	0.29~2.20 11.25~41.00 -1.00~1.00 1.19~11.30 40.00	The higher the growth rate, the higher the fair value The higher the sale price, the higher the fair value fluctuation The higher the price of real estate, the higher the fair value The lower the discount rate, the higher the fair value The higher the recovery rate, the higher the fair value
Equity securities	371,545	Income approach, Market approach, Asset value approach, DCF Model, Comparable Company Analysis, Adjusted discount rate method, Dividend Discount Model, Usage of past transactions, Tree Model and others	Correlation between underlying asset Growth rate Discount rate Liquidation value Volatility Correlation Recovery rate	18.16~88.46 0~2.20 1.19~21.96 -1.00~1.00 11.25~39.94 77.62~79.78 40	The higher the correlation coefficient, the higher the fair value fluctuation The higher the growth rate, the higher the fair value The lower the discount rate, the higher the fair value The higher the liquidation value, the higher the fair value The higher the volatility, the higher the fair value fluctuation The higher the correlation, the higher the fair value fluctuation The higher the recovery rate, the higher the fair value
Loans	213,203	Tree Model	Volatility of the stock price	13.11~49.28	The higher the volatility, the higher the fair value fluctuation

	Fair value (In millions of Korean won)	Valuation technique	Unobservable inputs	Range of unobservable inputs(%)	Relationship of unobservable inputs to fair value
Derivatives held for trading					
Stock and index	50,824	DCF Model, Closed Form, FDM, Monte Carlo Simulation, Hull and White Model, Black-Scholes Model, Tree Model	Volatility of the underlying asset Correlation between underlying asset Loss given default	14.00~50.00 8.74~68.77 100.00	The higher the volatility, the higher the fair value fluctuation The higher the correlation, the higher the fair value fluctuation The higher the loss given default, the lower the fair value
Currency, interest rate and others	60,239	DCF Model, Hull and White Model, Monte Carlo Simulation, Tree Model	Volatility Correlation between underlying asset	1.00~36.00 -46.89~90.11	The higher the volatility, the higher the fair value fluctuation The higher the absolute value of correlation, the higher the fair value fluctuation
Financial assets measured at fair value through other comprehensive income					
Equity securities	1,332,718	Adjusted discount rate method, IMV Model, DCF Model, Comparable Company Analysis, Dividend discount model, Option Model, Net asset value method, Market approach, One Factor Hull- White Model and others	Growth rate Discount rate Volatility	0~2.20 7.05~16.30 17.62~25.14	The higher the growth rate, the higher the fair value The lower the discount rate, the higher the fair value The higher the volatility, the higher the fair value fluctuation
Total	<u>₩ 9,170,587</u>				
Financial liabilities					
Financial liabilities designated at fair value through profit or loss					
Derivative-linked securities	₩10,873,383	DCF Model, Closed Form, FDM, Monte Carlo Simulation, Hull and White Model, Black Scholes-Model	Volatility of the underlying asset Correlation between underlying asset	1.00~115.00 -49.00~90.11	The higher the volatility, the higher the fair value fluctuation The higher the absolute value of correlation, the higher the fair value fluctuation
Derivatives held for trading					
Stock and index	240,817	DCF Model, Closed Form, FDM, Monte Carlo Simulation, Hull and White Model, Black-Scholes Model, Tree Model	Volatility Correlation between underlying asset	2.00~54.00 4.27~70.17	The higher the volatility, the higher the fair value fluctuation The higher the absolute value of correlation, the higher the fair value fluctuation

2018

	Fair value (In millions of Korean won)	Valuation technique	Unobservable inputs	Range of unobservable inputs(%)	Relationship of unobservable inputs to fair value
Others	170,377	Monte Carlo Simulation, Hull and White Model, DCF Model, Closed form formula	Volatility Volatility of the stock price Volatility of the interest rate Discount rate Correlation between underlying asset	1.00~115.00 20.85 0.69 2.19~2.26 -49.00~90.11	The higher the volatility, the higher the fair value fluctuation The higher the volatility, the higher the fair value fluctuation The higher the volatility, the higher the fair value fluctuation The higher the discount rate, the lower the fair value The higher the absolute value of correlation, the higher the fair value fluctuation
Total	<u>₩11,284,577</u>				

2019

	Fair value (In millions of Korean won)	Valuation technique	Unobservable inputs	Range of unobservable inputs(%)	Relationship of unobservable inputs to fair value
Financial assets					
Financial assets at fair value through profit or loss					
Cash and due from financial institutions	51,125	Option Model	Volatility of the underlying asset Correlation	11.43~34.39 -4.84	The higher the volatility, the higher the fair value fluctuation The higher the correlation, the higher the fair value fluctuation
Debt securities	10,132,766	DCF Model, Closed Form, FDM, Monte Carlo Simulation, Hull-White Model, Black-Scholes Model, Option Model, Tree Model, Net Asset Value, Income approach, Market approach and others	Growth rate Volatility of underlying assets Discount rate Recovery rate Correlation between underlying asset Liquidation value Volatility of estate price	-1.00~1.00 1.00~48.00 0.75~17.37 40.00 3.11~95.67 0.00 -1.00~1.00	The higher the growth rate, the higher the fair value The higher the volatility, the higher the fair value change The lower the discount rate, the higher the fair value The higher the recovery rate, the higher the fair value The higher the correlation coefficient, the higher the fair value change. The higher the liquidation value, the higher the fair value The higher the sale price, the higher the fair value

	Fair value (In millions of Korean won)	Valuation technique	Unobservable inputs	Range of unobservable inputs(%)	Relationship of unobservable inputs to fair value
Equity securities	523,276	Income approach, Market approach, Asset value approach, DCF Model, Comparable Company Analysis, Adjusted discount rate method, Dividend Discount Model, Usage of past transactions, Binomial Model and others	Growth rate Discount rate Liquidation value Volatility Volatility of the stock price Discount rate	0.00~2.20 2.00~22.00 -1.00~1.00 11.90 12.91~48.28 10.81	The higher the growth rate, the higher the fair value The lower the discount rate, the higher the fair value The higher the liquidation value, the higher the fair value The higher the volatility, the higher the fair value fluctuation The higher the volatility, the higher the fair value fluctuation The lower the discount rate, the higher the fair value
Loans	188,133	Binomial Model, DCF Model			
Derivatives held for trading					
Stock and index	416,486	DCF Model, Closed Form, FDM, Monte Carlo Simulation, Hull and White Model, Black-Scholes Model, Binomial Model	Volatility of the underlying asset Correlation between underlying asset Volatility Correlation between underlying asset	9.75~52.00 4.00~77.00 2.00~58.00 -49.00~90.00	The higher the volatility, the higher the fair value fluctuation The higher the correlation, the higher the fair value fluctuation The higher the volatility, the higher the fair value fluctuation The higher the absolute value of correlation, the higher the fair value fluctuation
Currency, interest rate and others	120,298	DCF Model, Hull-White Model			
Financial assets measured at fair value through other comprehensive income					
Equity securities	1,482,398	Adjusted discount rate method, IMV Model, DCF Model, Comparable Company Analysis, Dividend discount model, Option Model, Net asset value method, Market approach, One Factor Hull-White Model and others	Growth rate Discount rate Volatility	0.00~2.20 3.04~16.37 20.97~34.87	The higher the growth rate, the higher the fair value The lower the discount rate, the higher the fair value The higher the volatility, the higher the fair value fluctuation
Total	<u>₩12,914,482</u>				

	Fair value (In millions of Korean won)	Valuation technique	Unobservable inputs	Range of unobservable inputs(%)	Relationship of unobservable inputs to fair value
Financial liabilities					
Financial liabilities designated at fair value through profit or loss					
Derivative-linked securities	11,222,032	DCF Model, Closed Form, FDM, Monte Carlo Simulation, Hull and White Model, Black Scholes-Model	Volatility of the underlying asset Correlation between underlying asset	1.00~58.00 -49.00~90.00	The higher the volatility, the higher the fair value fluctuation The higher the absolute value of correlation, the higher the fair value fluctuation
Stock and index	54,341	DCF Model, Closed Form, FDM, Monte Carlo Simulation, Hull and White Model, Black-Scholes Model, Tree Model	Volatility Correlation between underlying asset	12.00~52.00 9.00~77.00	The higher the volatility, the higher the fair value fluctuation The higher the absolute value of correlation, the higher the fair value fluctuation
Others	172,477	Monte Carlo Simulation, Hull and White Model, DCF Model, Closed form formula	Volatility Volatility of the stock price Volatility of the interest rate Discount rate Correlation between underlying asset	2.00~58.00 16.28 0.52 1.94~2.00 19.00~90.00	The higher the volatility, the higher the fair value fluctuation The higher the volatility, the higher the fair value fluctuation The higher the volatility, the higher the fair value fluctuation The lower the discount rate, the higher the fair value The higher the absolute value of correlation, the higher the fair value fluctuation
Total	11,448,850				

Sensitivity analysis of changes in unobservable inputs

Sensitivity analysis of financial instruments is performed to measure favorable and unfavorable changes in the fair value of financial instruments which are affected by the unobservable parameters, using a statistical technique. When the fair value is affected by more than two input parameters, the amounts represent the most favorable or most unfavorable Level 3 financial instruments subject to sensitivity analysis are (i) equity-related derivatives, currency-related derivatives and interest rate related derivatives whose fair value changes are recognized in profit or loss, (ii) financial liabilities designated at fair value through profit or loss, and (iii) due from financial institutions, debt securities, equity securities and loan receivables whose fair value changes are recognized in profit or loss or other comprehensive income. If overlay approach is applied in accordance with IFRS 4, changes in fair value of financial assets at fair value through profit or loss are recognized as other comprehensive income.

The results of the sensitivity analysis from changes in inputs for the year ended December 31, 2018 and 2019 are as follows:

	2018			
	Recognition in profit or loss		Other comprehensive income	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
	(In millions of Korean won)			
Financial assets				
Financial assets at fair value through profit or loss ¹				
Due from financial institutions	₩ 4	₩ (2)	₩ 32	₩ (47)
Debt securities ⁴	20,261	(17,885)	2,183	(2,097)
Equity securities ³	14,241	(10,162)	848	(656)
Loans	129	(46)	—	—
Derivatives held for trading ²	27,639	(26,155)	—	—
Financial assets measured at fair value through other comprehensive income				
Equity securities ³	—	—	162,563	(86,094)
	<u>₩ 62,274</u>	<u>₩ (54,250)</u>	<u>₩ 165,626</u>	<u>₩ (88,894)</u>
Financial liabilities				
Financial liabilities designated at fair value through profit or loss ¹	₩ 146,135	₩ (157,361)	₩ —	₩ —
Derivatives held for trading ²	112,827	(105,875)	—	—
	<u>₩ 258,962</u>	<u>₩ (263,236)</u>	<u>₩ —</u>	<u>₩ —</u>

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

² For Derivatives financial instruments, the changes in fair value are calculated by shifting principal unobservable input parameters; such as, price of underlying asset, volatility of stock price, interest rate by $\pm 10\%$ and the loss given default ratio, discount rate by $\pm 1\%$

³ For equity securities, the changes in fair value are calculated by shifting principal unobservable input parameters; such as, correlation between growth rate (0~2.2%) and discount rate, or liquidation value (-1~1%) and discount rate.

⁴ Sensitivity of fair values to unobservable parameters of private equity fund is practically impossible, but in the case of equity fund composed of real estates, the changes in fair value are calculated by shifting correlation between discount rate (-1~1%) and volatilities of real estate price (-1~1%).

	2019			
	Recognition in profit or loss		Other comprehensive income	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
	(In millions of Korean won)			
Financial assets				
Financial assets at fair value through profit or loss ¹				
Due from financial institutions	₩ 3	₩ (3)	₩ 2	₩ (2)
Debt securities ⁴	30,771	(27,062)	2,341	(2,276)
Equity securities ³	24,456	(10,251)	1,110	(824)
Loans	6,362	(4,344)	—	—
Derivatives held for trading ²	25,830	(29,317)	—	—
Financial assets measured at fair value through other comprehensive income				
Equity securities ³	—	—	214,268	(110,687)
	<u>₩ 87,422</u>	<u>₩ (70,977)</u>	<u>₩ 217,721</u>	<u>₩ (113,789)</u>
Financial liabilities				
Financial liabilities designated at fair value through profit or loss ¹	₩ 49,730	₩ (44,136)	₩ —	₩ —
Derivatives held for trading ²	14,638	(13,572)	—	—
	<u>₩ 64,368</u>	<u>₩ (57,708)</u>	<u>₩ —</u>	<u>₩ —</u>

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

² For Derivatives financial instruments, the changes in fair value are calculated by shifting principal unobservable input parameters; such as, price of underlying asset, volatility of stock price, interest rate by $\pm 10\%$ and the loss given default ratio, discount rate by $\pm 1\%$

³ For equity securities, the changes in fair value are calculated by shifting principal unobservable input parameters; such as, correlation between growth rate (0~2.2%) and discount rate.

⁴ Sensitivity of fair values to unobservable parameters of private equity fund is practically impossible, but in the case of equity fund composed of real estates, the changes in fair value are calculated by shifting correlation between discount rate (-1~1%) and volatilities of real estate price (-1~1%).

6.2.4 Day One Gain or Loss

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

The aggregate difference yet to be recognized in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference for the years ended December 31, 2018 and 2019, are as follows:

	2018	2019
	(In millions of Korean won)	
Balance at the beginning of the period	₩ 22,814	₩ 62,155
New transactions and others	131,504	168,225
Changes during the period	(92,163)	(184,613)
Balance at the end of the year	<u>₩ 62,155</u>	<u>₩ 45,767</u>

6.3 Carrying Amounts of Financial Instruments by Category

Financial assets and liabilities are measured at fair value or amortized cost. The measurement methodology by categories of financial instruments is addressed at Note 3.

The carrying amounts of financial assets and liabilities by category as of December 31, 2018 and 2019, are as follows:

	2018					Total
	Financial instruments measured at fair value through other comprehensive income					
	Financial instruments at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Financial instruments designated at fair value through other comprehensive income	Financial instruments at amortized cost	Derivatives held for hedging	
(In millions of Korean won)						
Financial assets						
Cash and due from financial institutions	₩ —	₩ —	₩ —	₩ 20,274,490	₩ —	₩ 20,274,490
Financial assets at fair value through profit or loss	50,987,847	—	—	—	—	50,987,847
Derivatives	1,915,532	—	—	—	110,430	2,025,962
Loans at amortized cost	—	—	—	319,201,603	—	319,201,603
Financial investments	—	35,633,456	2,370,116	23,661,522	—	61,665,094
Other financial assets	—	—	—	8,133,556	—	8,133,556
Total	₩ 52,903,379	₩ 35,633,456	₩ 2,370,116	₩ 371,271,171	₩ 110,430	₩ 462,288,552

	2018					Total
	Financial instruments at fair value through profit or loss					
	Financial instruments at fair value through profit or loss	Financial instruments designated at fair value through profit or loss	Financial instruments at amortized cost	Derivatives held for hedging		
(In millions of Korean won)						
Financial liabilities						
Financial liabilities at fair value through profit or loss	₩ 2,823,820	₩ 12,503,039	₩ —	₩ —	₩ —	₩ 15,326,859
Derivatives	2,724,994	—	—	176,253	—	2,901,247
Deposits	—	—	276,770,449	—	—	276,770,449
Debts	—	—	33,004,834	—	—	33,004,834
Debentures	—	—	53,278,697	—	—	53,278,697
Other financial liabilities	—	—	19,828,307	—	—	19,828,307
Total	₩ 5,548,814	₩ 12,503,039	₩ 382,882,287	₩ 176,253	₩ —	₩ 401,110,393

2019

	Financial instruments measured at fair value through other comprehensive income					Derivatives held for hedging	Total
	Financial instruments at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Financial instruments designated at fair value through other comprehensive income	Financial instruments at amortized cost			
(In millions of Korean won)							
Financial assets							
Cash and due from financial institutions	₩ —	₩ —	₩ —	₩ 20,837,878	₩ —	₩ 20,837,878	
Financial assets at fair value through profit or loss	53,549,086	—	—	—	—	53,549,086	
Derivatives	3,008,598	—	—	—	182,075	3,190,673	
Loans at amortized cost	—	—	—	339,684,059	—	339,684,059	
Financial investments	—	43,931,946	2,504,105	25,346,555	—	71,782,606	
Other financial assets	—	—	—	9,147,059	—	9,147,059	
Total	₩ 56,557,684	₩ 43,931,946	₩ 2,504,105	₩395,015,551	₩ 182,075	₩498,191,361	

2019

	Financial instruments at fair value through profit or loss					Derivatives held for hedging	Total
	Financial instruments at fair value through profit or loss	Financial instruments designated at fair value through profit or loss	Financial instruments at amortized cost				
(In millions of Korean won)							
Financial liabilities							
Financial liabilities at fair value through profit or loss	₩ 2,663,327	₩ 12,704,826	₩ —	₩ —	₩ —	₩ 15,368,153	
Derivatives	2,842,950	—	—	—	164,391	3,007,341	
Deposits	—	—	305,592,771	—	—	305,592,771	
Debts	—	—	37,818,860	—	—	37,818,860	
Debentures	—	—	50,935,583	—	—	50,935,583	
Other financial liabilities	—	—	22,629,587	—	—	22,629,587	
Total	₩ 5,506,277	₩ 12,704,826	₩416,976,801	₩ 164,391	₩435,352,295		

6.4 Transfer of Financial Assets

Transferred financial assets that are derecognized in their entirety

The Group transferred loans and other financial assets that are derecognized in their entirety to SPEs (special purpose entity), while the maximum exposure to loss (carrying amount) from its continuing involvement in the derecognized financial assets as of December 31, 2018 and 2019, are as follows:

2018				
	Type of continuing involvement	Classification of financial instruments	Carrying amount of continuing involvement in statement of financial position	Fair value of continuing involvement
(In millions of Korean won)				
Discovery ABS Second Co., Ltd.	Subordinate debt	Financial assets at fair value through profit or loss . . .	₩ 6,205	₩ 6,205
FK1411 Co., Ltd.	Subordinate debt	Financial assets at fair value through profit or loss . . .	8,883	8,883
AP 3B ABS Ltd.	Subordinate debt	Financial assets at fair value through profit or loss . . .	5,512	5,512
AP 4D ABS Ltd. ¹	Subordinated debt	Financial assets at fair value through profit or loss . . .	13,494	13,494
		Total	<u>₩ 34,094</u>	<u>₩ 34,094</u>

¹ The recovered portion in excess of the consideration paid attributable to adjustments based on the agreement with the National Happiness Fund for non-performing loans amounts to ₩ 13,731 million as at December 31, 2018.

2019				
	Type of continuing involvement	Classification of financial instruments	Carrying amount of continuing involvement in statement of financial position	Fair value of continuing involvement
(In millions of Korean won)				
Discovery ABS Second Co., Ltd.	Subordinate debt	Financial assets at fair value through profit or loss	₩ 5,596	₩ 5,596
FK1411 Co., Ltd.	Subordinate debt	Financial assets at fair value through profit or loss	5,428	5,428
AP 3B ABS Ltd.	Subordinate debt	Financial assets at fair value through profit or loss	3,205	3,205
AP 4D ABS Ltd.	Subordinated debt	Financial assets at fair value through profit or loss	6,175	6,175
		Total	<u>₩ 20,404</u>	<u>₩ 20,404</u>

Transferred financial assets that are not derecognized in their entirety

The Group securitized the loans and issued the asset-backed debentures. The senior debentures and related securitized assets as of December 31, 2018 and 2019, are as follows:

	2018 ²			
	Carrying amount of underlying assets	Carrying amount of senior debentures		
(In millions of Korean won)				
KB Kookmin Card Third Securitization Co., Ltd. ¹	₩ 627,630	₩ 336,929		
KB Kookmin Card Fourth Securitization Co., Ltd. ¹	587,760	333,296		
KB Kookmin Card Fifth Securitization Co., Ltd. ¹	562,239	299,754		
	<u>₩ 1,777,629</u>	<u>₩ 969,979</u>		

	2019			
	Carrying amount of underlying assets	Fair value of underlying assets	Carrying amount of senior debentures	Fair value of senior debentures
(In millions of Korean won)				
KB Kookmin Card Third Securitization Co., Ltd. ¹	₩ 601,659	₩ 592,358	₩ 351,207	₩ 342,204
KB Kookmin Card Fourth Securitization Co., Ltd. ¹	560,903	552,216	347,387	340,820
KB Kookmin Card Fifth Securitization Co., Ltd. ¹	542,861	534,630	299,795	304,835
KB Kookmin Card Sixth Securitization Co., Ltd. ¹	795,884	784,080	461,909	469,600
	<u>₩ 2,501,307</u>	<u>₩ 2,463,284</u>	<u>₩ 1,460,298</u>	<u>₩ 1,457,459</u>

¹ The Group has an obligation to early redeem the asset-backed debentures upon occurrence of an event specified in the agreement such as when the outstanding balance of the eligible asset-backed securitization (ABS), a trust-type ABS, is below the solvency margin ratio (minimum rate: 104.5%) of the beneficiary interest in the trust. To avoid such early redemption, the Group entrusts accounts and deposits in addition to the previously entrusted card accounts.

² The Carrying amounts of Underlying assets and senior debentures are similar to the Fair value amounts of those as of December 31, 2018.

The Group transferred the beneficiary certificates to Yuanta Securities at ₩ 74,853 million and entered into a total return swap contract. If the fair value of the transferred asset changes, the risk is attributed to the company in accordance with the contract.

Securities under repurchase agreements and loaned securities

The Group continues to recognize the financial assets related to repurchase agreements and securities lending transactions on the statements of financial position since those transactions are not qualified for derecognition even though the Group transfers the financial assets. A financial asset is sold under a repurchase agreement to repurchase the same asset at a fixed price, or loaned under a securities lending agreement to be returned as the same asset. Thus, the Group retains substantially all the risks and rewards of ownership of the financial asset. The amounts of transferred assets and related liabilities as of December 31, 2018 and 2019, are as follows:

	2018	
	Carrying amount of transferred assets	Carrying amount of related liabilities
	(In millions of Korean won)	
Repurchase agreements ¹	₩ 9,176,947	₩ 8,784,896
Loaned securities		
Government bond	1,160,362	—
Stock	58,171	—
Total	₩ 10,395,480	₩ 8,784,896
	2019	
	Carrying amount of transferred assets	Carrying amount of related liabilities
	(In millions of Korean won)	
Repurchase agreements ¹	₩ 9,292,858	₩ 8,884,847
Loaned securities		
Government bond	2,259,096	—
Stock	25,725	—
Total	₩ 11,577,679	₩ 8,884,847

¹ The bond sold under repurchase agreements amounts to ₩ 3,162,000 million and ₩ 4,126,274 million as of December 31, 2018 and 2019, respectively.

6.5 Offsetting Financial Assets and Financial Liabilities

The Group enters into International Swaps and Derivatives Association (“ISDA”) master netting agreements and other similar arrangements with the Group’s derivative and spot exchange counterparties. Similar netting agreements are also entered into with the Group’s reverse repurchase, securities and others. Pursuant to these agreements, in the event of default by one party, contracts are to be terminated and receivables and payables are to be offset. Further, as the law allows for the right to offset, domestic uncollected receivables balances and domestic accrued liabilities balances are shown in its net settlement balance in the consolidated statement of financial position.

Details of financial assets subject to offsetting, enforceable master netting arrangements or similar agreement as of December 31, 2018 and 2019, are as follows:

	2018					Net amount
	Gross assets	Gross liabilities offset	Net amounts presented in the statement of financial position	Non-offsetting amount		
				Financial instruments	Cash collateral	
(In millions of Korean won)						
Derivatives held for trading and Derivatives linked securities	₩ 1,893,335	₩ —	₩ 1,893,335	₩ (1,511,752)	₩ (5,101)	₩ 486,912
Derivatives held for hedging	110,430	—	110,430			
Receivable spot exchange	2,222,164	—	2,222,164	(2,213,967)	—	8,197
Reverse repurchase agreements	3,411,700	—	3,411,700	(3,332,700)	—	79,000
Domestic exchange settlement debits	27,723,990	(26,992,637)	731,353	—	—	731,353
Other financial instruments	1,157,569	(1,103,015)	54,554	(3,932)	—	50,622
Total	<u>₩36,519,188</u>	<u>₩(28,095,652)</u>	<u>₩ 8,423,536</u>	<u>₩ (7,062,351)</u>	<u>₩ (5,101)</u>	<u>₩1,356,084</u>
2019						
	Gross assets	Gross liabilities offset	Net amounts presented in the statement of financial position	Non-offsetting amount		Net amount
				Financial instruments	Cash collateral	
(In millions of Korean won)						
Derivatives held for trading and Derivatives linked securities	₩ 3,043,757	₩ —	₩ 3,043,757	₩ (2,122,160)	₩(288,040)	₩ 815,632
Derivatives held for hedging	182,075	—	182,075			
Receivable spot exchange	3,051,390	—	3,051,390	(3,050,116)	—	1,274
Reverse repurchase agreements	6,507,646	—	6,507,646	(6,507,046)	—	600
Domestic exchange settlement debits	31,344,009	(30,794,160)	549,849	—	—	549,849
Other financial instruments	1,043,320	(1,022,977)	20,343	(2,492)	—	17,851
Total	<u>₩45,172,197</u>	<u>₩(31,817,137)</u>	<u>₩13,355,060</u>	<u>₩(11,681,814)</u>	<u>₩(288,040)</u>	<u>₩1,385,206</u>

Details of financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreement as of December 31, 2018 and 2019, are as follows:

2018						
Gross liabilities	Gross asset offset	Net amounts presented in the statement of financial position	Non-offsetting amount		Net amount	
			Financial instruments	Cash collateral		
(In millions of Korean won)						
Derivatives held for trading and Derivatives linked securities	₩ 2,557,169	₩ —	₩ 2,557,169	₩ (1,965,456)	₩(47,746)	₩720,220
Derivatives held for hedging	176,253	—	176,253	—	—	—
Payable spot exchange	2,219,980	—	2,219,980	(2,208,302)	—	11,678
Repurchase agreements ¹	11,946,896	—	11,946,896	(11,862,096)	—	84,800
Securities borrowing agreements	2,745,906	—	2,745,906	(2,745,906)	—	—
Domestic exchange settlement credits	28,672,551	(26,992,637)	1,679,914	(1,679,914)	—	—
Other financial instruments	1,151,697	(1,103,015)	48,682	(3,932)	—	44,750
Total	₩49,470,452	₩(28,095,652)	₩21,374,800	₩(20,465,606)	₩(47,746)	₩861,448

¹ Includes repurchase agreements sold to customers.

2019						
Gross liabilities	Gross asset offset	Net amounts presented in the statement of financial position	Non-offsetting amount		Net amount	
			Financial instruments	Cash collateral		
(In millions of Korean won)						
Derivatives held for trading and Derivatives linked securities	₩ 2,936,638	₩ —	₩ 2,936,638	₩ (2,182,243)	₩(92,565)	₩826,221
Derivatives held for hedging	164,391	—	164,391	—	—	—
Payable spot exchange	3,050,982	—	3,050,982	(3,034,679)	—	16,303
Repurchase agreements ¹	13,011,121	—	13,011,121	(13,000,321)	—	10,800
Securities borrowing agreements	2,583,092	—	2,583,092	(2,583,092)	—	—
Domestic exchange settlement credits	32,867,423	(30,794,160)	2,073,263	(2,073,263)	—	—
Other financial instruments	1,156,345	(1,022,977)	133,368	(2,492)	—	130,876
Total	₩55,769,992	₩(31,817,137)	₩23,952,855	₩(22,876,090)	₩(92,565)	₩984,200

7. Due from Financial Institutions at Amortized Cost

Details of due from financial institutions as of December 31, 2018 and 2019, are as follows:

		<u>Financial institutions</u>	<u>Interest rate(%)</u>	<u>2018</u>	<u>2019</u>
(In millions of Korean won)					
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	—	₩ 8,723,761	₩ 8,117,840
	Due from financial institutions	KEB Hana Bank and others	0.00~2.75	3,245,841	4,641,714
	Due from others	Korea Securities Finance Corporation and others	0.00~1.23	1,132,908	654,981
		Sub-total		13,102,510	13,414,535
Due from financial institutions in foreign currencies	Due from financial institutions	Bank of Korea and others	0.00~0.50	1,734,660	2,351,929
	Time deposits	INDUSTRIAL BANK CHANGSHA BR. and others	0.00~7.80	1,001,600	1,053,776
	Due from others	Morgan Stanley Bank International and others	0.00~8.00	1,379,537	1,327,432
		Sub-total		4,115,797	4,733,137
		Total		₩17,218,307	₩18,147,672

¹ Before netting of allowance.

Restricted cash from financial institutions as of December 31, 2018 and 2019, are as follows:

		<u>Financial Institutions</u>	<u>2018</u>	<u>2019</u>	<u>Reason for restriction</u>
(In millions of Korean won)					
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	₩ 8,723,761	₩ 8,117,840	Bank of Korea Act
	Due from Banking institution	NH Investment Securities and others	1,348,099	3,027,963	Net settlement and others
	Due from others	Korea Securities Finance Corporation and others	655,194	555,294	Derivatives margin account and others
		Sub-total	10,727,054	11,701,097	
Due from financial institutions in foreign currencies	Due from financial institutions in foreign currencies	Bank of Korea and others	375,130	490,071	Bank of Korea Act and others
	Time deposits in foreign currencies	ICBC NEW YORK and others	30,538	31,443	Bank Act of the State of New York
	Due from others	Morgan Stanley Bank International and others	1,214,905	1,150,355	Derivatives margin account and others
		Sub-total	1,620,573	1,671,869	
		Total	₩12,347,627	₩13,372,966	

¹ Before netting of allowance.

Changes in the allowances for due from financial institutions losses

Changes in the allowances for due from financial institutions losses for the year ended December 31, 2018 and 2019, are as follows:

	2018			
	The financial instruments applying 12-month expected credit losses	The financial instruments applying lifetime expected credit losses		
		Non-impaired	Impaired	
	(In millions of Korean won)			
Beginning ¹	₩ 1,797	₩ —	₩ —	—
Transfer between stages	—	—	—	—
Transfer to 12-month expected credit losses	—	—	—	—
Transfer to lifetime expected credit losses	—	—	—	—
Impairment	—	—	—	—
Disposal	—	—	—	—
Provision for loan losses	221	—	—	—
Others (change of exchange rate, etc.)	1	—	—	—
Ending	₩ 2,019	₩ —	₩ —	—

¹ Prepared in accordance with IFRS 9.

	2019			
	The financial instruments applying 12-month expected credit losses	The financial instruments applying lifetime expected credit losses		
		Non-impaired	Impaired	
	(In millions of Korean won)			
Beginning	₩ 2,019	₩ —	₩ —	—
Transfer between stages	—	—	—	—
Transfer to 12-month expected credit losses	—	—	—	—
Transfer to lifetime expected credit losses	—	—	—	—
Impairment	—	—	—	—
Disposal	—	—	—	—
Provision for loan losses	1,116	1,210	360	—
Others (change of exchange rate, etc.)	29	(22)	—	—
Ending	₩ 3,164	₩ 1,188	₩ 360	—

8. Assets pledged as collateral

Details of assets pledged as collateral as of December 31, 2018 and 2019, are as follows:

Assets pledged	Pledgee	2018	
		Carrying amount (In millions of Korean won)	Reason of pledge
Due from financial institutions	Korea Federation of Savings Banks and others	₩ 1,884,068	Borrowings from bank and others
Financial assets measured at fair value through profit or loss	Korea Securities Depository and others	7,676,111	Repurchase agreements
	Korea Securities Depository and others	9,303,600	Securities borrowing transactions
	Samsung Futures Inc. and others	1,503,088	Derivatives transactions
		<u>18,482,799</u>	
Financial assets measured at fair value through other comprehensive income	Korea Securities Depository and others	1,258,694	Repurchase agreements
	Korea Securities Depository and others	1,001,259	Securities borrowing transactions
	Bank of Korea	49,948	Borrowings from Bank of Korea
	Bank of Korea	479,784	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others	395,221	Derivatives transactions
		<u>3,184,906</u>	
Securities at amortized cost	Korea Securities Depository and others	276,688	Repurchase agreements
	Bank of Korea	1,911,160	Borrowings from Bank of Korea
	Bank of Korea	1,474,529	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others	162,184	Derivatives transactions
	Others	350,292	Others
		<u>4,174,853</u>	
Mortgage loans	Others	4,060,863	Covered bond
Real estate	NATIXIS REAL ESTATE CAPITAL LLC and others . . .	801,944	Borrowings from bank and others
		<u>₩ 32,589,433</u>	

Assets pledged	Pledgee	2019	
		Carrying amount (In millions of Korean won)	Reason of pledge
Due from financial institutions	Korea Federation of Savings Banks and others	₩ 3,752,497	Borrowings from bank and others
Financial assets measured at fair value through profit or loss	Korea Securities Depository and others	7,561,287	Repurchase agreements
	Korea Securities Depository and others	7,745,154	Securities borrowing transactions
	Samsung Futures Inc. and others	1,090,495	Derivatives transactions
		<u>16,396,936</u>	
Financial assets measured at fair value through other comprehensive income	Korea Securities Depository and others	1,139,852	Repurchase agreements
	Korea Securities Depository and others	1,168,515	Securities borrowing transactions
	Bank of Korea	1,212,021	Borrowings from Bank of Korea
	Bank of Korea	653,825	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others	167,600	Derivatives transactions
		<u>4,341,813</u>	
Securities at amortized cost	Korea Securities Depository and others	581,268	Repurchase agreements
	Bank of Korea	1,767,559	Borrowings from Bank of Korea
	Bank of Korea	3,077,151	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others	247,301	Derivatives transactions
	Others	494,785	Others
		<u>6,168,064</u>	
Mortgage loans	Others	<u>6,487,022</u>	Covered bond
Real estate	NATIXIS REAL ESTATE CAPITAL LLC and others . . .	1,665,368	Borrowings from bank and others
		<u>₩ 38,811,700</u>	

The Group provides ₩ 6,472,993 million and ₩ 7,320,220 million of its borrowing securities and securities held as collateral with Korean Securities Finance Corporation and others as at December 31, 2018 and 2019.

The fair values of collateral available to sell or repledge, and collateral sold or repledged, regardless of debtor's default, as of December 31, 2018 and 2019, are as follows:

	2018		
	Fair value of collateral held	Fair value of collateral sold or repledged	Total
	(In millions of Korean won)		
Securities	₩ 3,547,179	₩ —	₩3,547,179
	2019		
	Fair value of collateral held	Fair value of collateral sold or repledged	Total
	(In millions of Korean won)		
Securities	₩ 6,726,632	₩ —	₩6,726,632

9. Derivative Financial Instruments and Hedge Accounting

The Group's derivative operations focus on addressing the needs of the Group's corporate clients to hedge their risk exposure and to hedge the Group's risk exposure that results from such client contracts. The Group also engages in derivative trading activities to hedge the interest rate and foreign currency risk exposures that arise from the Group's own assets and liabilities. In addition, the Group engages in proprietary trading of derivatives within the Group's regulated open position limits.

The Group provides and trades a range of derivatives products, including:

- Interest rate swaps, relating to interest rate risks in Korean won
- Cross-currency swaps, forwards and options relating to foreign exchange rate risks,
- Stock price index options linked with the KOSPI index.

In particular, the Group applies fair value hedge accounting using cross currency swaps, interest rate swaps and others to hedge the risk of changes in fair values due to the changes in interest rates and foreign exchange rates of structured debts in Korean won, financial debentures in foreign currencies, structured deposits in Korean won, and structured deposits in foreign currencies. In addition, the Group applies net investment hedge accounting by designating financial debentures in foreign currencies as hedging instruments to hedge foreign exchange risks on net investments in foreign operations.

As discussed in Note 2.1.1, the Group has applied the hedge accounting amendment regarding to Interest rate benchmark reform to hedge accounting relationships directly affected by the replacement of interest rate benchmarks. Under these amendments, for the purpose of:

- determining whether a forecast transaction is highly probable;
- determining whether the hedged future cash flows are expected to occur;
- determining whether a hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk; and
- determining whether an accounting hedging relationship should be discontinued because of a failure of the retrospective effectiveness test the Group has assumed that the interest rate benchmark on which the hedged risk or the cash flows of the hedged item or hedging instrument are based is not altered by uncertainties resulting from the proposed interest rate benchmark reform. In addition, for a fair value hedge of a non-contractually specified benchmark portion of interest rate risk, the Group assesses only at inception of the hedge relationship and not on an ongoing basis that the risk is separately identifiable and hedge effectiveness can be measured.

The corresponding interest rate indicators for which the hedging relationship is exposed are 1M LIBOR, 3M LIBOR, 6M LIBOR, and 3M CD. The nominal amount of the hedging instruments associated with 1M LIBOR, 3M LIBOR, 6M LIBOR and 3M CD are ₩ 926,240 million, ₩ 6,878,617 million, ₩ 90,309 million, and ₩ 1,720,000 million, respectively. The Group is closely following the market and industry discussions regarding applicable replacement benchmark interest rates for exposed interest rate indicators and believes that this uncertainty will no longer appear once the exposed interest is replaced.

In February 2020, our Financial Planning Department assembled a LIBOR transition Task Force Team (the "LIBOR Task Force") in order to prepare for LIBOR transition in a more active and systematic way. The LIBOR Task Force is primarily responsible for the identification and evaluation of a variety of risks that may arise from LIBOR transition, and reports its findings to our Asset and Liability Management Committee on a regular basis. The LIBOR Task Force identifies our risks relating to LIBOR transition and our exposure thereto by analyzing the scope of our existing financial instruments and contracts that may be affected by LIBOR transition.

Details of derivative financial instruments held for trading as of December 31, 2018 and 2019, are as follows:

	2018		
	Notional amount	Assets	Liabilities
	(In millions of Korean won)		
Interest rate			
Forwards	₩ 570,000	₩ —	₩ 55,056
Futures ¹	4,269,407	1,124	3,852
Swaps	219,558,592	421,591	471,915
Options	16,937,362	159,218	276,392
Sub-total	<u>241,335,361</u>	<u>581,933</u>	<u>807,215</u>
Currency			
Forwards	74,189,998	622,745	548,127
Futures ¹	602,805	37	240
Swaps	36,073,995	470,499	452,390
Options	2,449,469	6,071	13,602
Sub-total	<u>113,316,267</u>	<u>1,099,352</u>	<u>1,014,359</u>
Stock and index			
Futures ¹	1,155,861	4,902	10,820
Swaps	8,190,648	82,803	321,135
Options	5,442,775	70,740	464,226
Sub-total	<u>14,789,284</u>	<u>158,445</u>	<u>796,181</u>
Credit			
Swaps	4,300,208	32,711	25,047
Sub-total	<u>4,300,208</u>	<u>32,711</u>	<u>25,047</u>
Commodity			
Futures ¹	5,807	150	128
Swaps	140,382	2,202	3,199
Sub-total	<u>146,189</u>	<u>2,352</u>	<u>3,327</u>
Other	<u>2,361,827</u>	<u>40,739</u>	<u>78,865</u>
Total	<u>₩376,249,136</u>	<u>₩1,915,532</u>	<u>₩2,724,994</u>

¹ Gain or loss arising from futures daily settlement is reflected in the margin accounts.

	2019		
	Notional amount	Assets	Liabilities
	(In millions of Korean won)		
Interest rate			
Forwards	₩ 570,000	₩ 206	₩ 84,126
Futures ¹	2,951,770	698	235
Swaps	270,091,778	512,145	557,511
Options	17,521,156	267,697	379,262
Sub-total	<u>291,134,704</u>	<u>780,746</u>	<u>1,021,134</u>
Currency			
Forwards	87,373,417	942,632	750,380
Futures ¹	107,793	—	349
Swaps	46,501,399	606,464	610,275
Options	2,789,562	5,438	14,346
Sub-total	<u>136,772,171</u>	<u>1,554,534</u>	<u>1,375,350</u>
Stock and index			
Futures ¹	1,646,785	22,451	20,704
Swaps	6,773,467	448,803	86,100
Options	5,559,865	99,013	176,141
Sub-total	<u>13,980,117</u>	<u>570,267</u>	<u>282,945</u>
Credit			
Swaps	4,433,960	19,178	13,659
Sub-total	<u>4,433,960</u>	<u>19,178</u>	<u>13,659</u>
Commodity			
Futures ¹	3,281	68	3
Swaps	105,658	2,948	474
Sub-total	<u>108,939</u>	<u>3,016</u>	<u>477</u>
Other	3,160,013	80,857	149,385
Total	<u>₩449,589,904</u>	<u>₩3,008,598</u>	<u>₩2,842,950</u>

¹ Gain or loss arising from futures daily settlement is reflected in the margin accounts.

The average price or rate of the nominal cash flow for each type of hedge accounting as of December 31, 2018 and 2019, are as follows:

		2018						
		1 year	2 years	3 years	4 years	5 years	More than 5 years	Total
		(In millions of Korean won)						
Fair value hedge								
The nominal of the hedging								
instrument		1,371,901	728,308	1,372,040	567,030	195,392	1,308,602	5,543,273
Average rate (%)		2.21	2.26	2.65	2.23	3.25	3.66	2.80
Average price (USD/KRW)		1,094.95	—	1,063.84	—	—	—	1,094.53
Average price (EUR/KRW)		1,319.66	1,331.65	—	—	—	—	1,322.81
Cash flow hedge								
The nominal of the hedging								
instrument		2,641,861	1,403,129	902,911	919,258	525,629	50,000	6,442,788
Average rate (%)		2.70	2.94	2.36	2.70	2.79	2.53	2.73
Average price (USD/KRW)		1,103.25	1,129.90	1,110.49	1,087.84	1,095.73	—	1,111.63
Average price (EUR/KRW)		—	1,305.59	1,306.76	1,312.75	—	—	1,306.99
Average price (AUD/KRW)		—	—	837.00	—	—	—	837.00
Average price (SGD/KRW)		—	815.80	831.49	—	—	—	823.54
Hedge of net investments in a foreign operations								
The nominal of the hedging								
instrument		528,025	2,942	—	—	—	—	530,967
Average price (USD/KRW)		1,120.33	—	—	—	—	—	1,120.33
Average price (EUR/KRW)		1,348.19	1,295.40	—	—	—	—	1,335.88
		2019						
		1 year	2 years	3 years	4 years	5 years	More than 5 years	Total
		(In millions of Korean won)						
Fair value hedge								
The nominal of the hedging								
instrument		2,649,272	1,807,950	897,562	309,882	466,053	1,414,570	7,545,289
Average rate (%)		2.29	2.70	2.29	3.16	2.50	3.92	2.91
Average price (USD/KRW)		1,149.90	1,138.82	1,094.35	—	—	—	1,146.84
Average price (EUR/KRW)		1,319.66	1,346.38	—	—	—	—	1,327.68
Average price (AUD/KRW)		803.71	—	—	—	—	—	803.71
Cash flow hedge								
The nominal of the hedging								
instrument		2,450,918	1,199,124	1,764,991	529,202	120,000	150,000	6,214,235
Average rate (%)		2.64	2.56	2.66	2.79	2.00	1.67	2.59
Average price (USD/KRW)		1,129.58	1,111.66	1,153.15	1,095.73	—	—	1,132.99
Average price (EUR/KRW)		1,305.22	1,306.76	1,312.75	—	—	—	1,306.91
Average price (AUD/KRW)		—	837.00	—	—	—	—	837.00
Average price (SGD/KRW)		815.80	831.49	—	—	—	—	823.54
Hedge of net investments in a foreign operations								
The nominal of the hedging								
instrument		248,233	—	27,336	—	—	—	275,569
Average price (USD/KRW)		1,151.49	—	—	—	—	—	1,151.49
Average price (GBP/KRW)		—	—	1,465.26	—	—	—	1,465.26

Fair Value Hedge

Details of hedged item in fair value hedge as of December 31, 2018 and 2019, are as follows:

		2018				
		Carrying amount		Accumulated adjusted amount		Changes in the fair value
		Assets	Liabilities	Assets	Liabilities	
		(In millions of Korean won)				
Hedge accounting						
Interest rate	Debt securities in KRW	₩ 465,213	₩ —	₩ 1,214	₩ —	₩ 6,001
	Debt securities in foreign currencies	702,727	—	(9,790)	—	(1,233)
	Deposits in foreign currencies	—	805,215	—	(89,265)	38,232
	Debts in KRW	—	349,252	—	19,252	(2,308)
	Debts in foreign currencies	—	1,429,457	—	(24,073)	(1,868)
		<u>1,167,940</u>	<u>2,583,924</u>	<u>(8,576)</u>	<u>(94,086)</u>	<u>38,824</u>
Currency	Debt securities in foreign currencies	<u>1,845,253</u>	<u>—</u>	<u>(75,255)</u>	<u>—</u>	<u>86,209</u>
		<u>1,845,253</u>	<u>—</u>	<u>(75,255)</u>	<u>—</u>	<u>86,209</u>
		<u>₩ 3,013,193</u>	<u>₩ 2,583,924</u>	<u>₩(83,831)</u>	<u>₩ (94,086)</u>	<u>₩ 125,033</u>
		2019				
		Carrying amount		Accumulated adjusted amount		Changes in the fair value
		Assets	Liabilities	Assets	Liabilities	
		(In millions of Korean won)				
Hedge accounting						
Interest rate	Debt securities in KRW	₩ 549,526	₩ —	₩ 5,485	₩ —	₩ 5,502
	Debt securities in foreign currencies	1,670,838	—	19,243	—	25,540
	Deposits in foreign currencies	—	780,491	—	(18,391)	(62,439)
	Debts in KRW	—	351,070	—	21,070	(1,818)
	Debts in foreign currencies	—	2,067,556	—	41,406	(65,480)
		<u>2,220,364</u>	<u>3,199,117</u>	<u>24,728</u>	<u>44,085</u>	<u>(98,695)</u>
Currency	Debt securities in foreign currencies	<u>2,339,239</u>	<u>—</u>	<u>24,181</u>	<u>—</u>	<u>61,133</u>
		<u>2,339,239</u>	<u>—</u>	<u>24,181</u>	<u>—</u>	<u>61,133</u>
		<u>₩ 4,559,603</u>	<u>₩ 3,199,117</u>	<u>₩ 48,909</u>	<u>₩ 44,085</u>	<u>₩ (37,562)</u>

Details of derivative instruments designated as fair value hedge as of December 31, 2018 and 2019, are as follows:

	2018			Changes in the fair value
	Notional amount	Assets	Liabilities	
	(In millions of Korean won)			
Interest rate				
Swaps	₩ 3,845,555	₩58,933	₩ 88,017	₩ (37,638)
Currency				
Forwards	1,697,718	5,923	32,565	(106,903)
	<u>₩ 5,543,273</u>	<u>₩64,856</u>	<u>₩120,582</u>	<u>₩ (144,541)</u>
	2019			Changes in the fair value
	Notional amount	Assets	Liabilities	
	(In millions of Korean won)			
Interest rate				
Swaps	₩ 5,326,500	₩129,085	₩29,676	₩ 101,448
Currency				
Forwards	2,218,789	22,503	27,862	(74,372)
	<u>₩ 7,545,289</u>	<u>₩151,588</u>	<u>₩57,538</u>	<u>₩ 27,076</u>

Details of hedge ineffectiveness recognized in profit or loss from derivatives for the year ended December 31, 2018 and 2019, are as follows:

	2018		2019	
	Hedge ineffectiveness recognized in profit or loss		Hedge ineffectiveness recognized in profit or loss	
	(In millions of Korean won)			
From hedge accounting				
Interest rate	₩	1,186	₩	2,753
Currency rate		(20,694)		(13,239)
	<u>₩</u>	<u>(19,508)</u>	<u>₩</u>	<u>(10,486)</u>

Gains and losses from fair value hedging instruments and hedged items attributable to the hedged risk for the years ended December 31, 2017, 2018 and 2019, are as follows:

	2017			2018			2019		
	(In millions of Korean won)			(In millions of Korean won)			(In millions of Korean won)		
Gains(losses) on hedging instruments	₩	93,112	₩160,416	₩	34,070	₩	34,070	₩	34,070
Gains(losses) on the hedged items attributable to the hedged risk		(56,461)	135,556		(44,655)		(44,655)		(44,655)
Total	<u>₩</u>	<u>36,651</u>	<u>₩(24,860)</u>	<u>₩</u>	<u>(10,585)</u>	<u>₩</u>	<u>(10,585)</u>	<u>₩</u>	<u>(10,585)</u>

Cash Flow Hedge

Details of hedged item in cash flow hedge as of December 31, 2018 and 2019, are as follows:

	2018	
	Changes in fair value	Other comprehensive income for cash flow hedge
	(In millions of Korean won)	
Hedge accounting		
Interest rate risk	₩ 5,971	₩ 4,686
Foreign currency change risk	18,650	1,163
	<u>₩ 24,621</u>	<u>₩ 5,849</u>
	2019	
	Changes in fair value	Other comprehensive income for cash flow hedge
	(In millions of Korean won)	
Hedge accounting		
Interest rate risk	₩25,671	₩ (15,670)
Foreign currency change risk	42,357	(11,663)
	<u>₩68,028</u>	<u>₩ (27,333)</u>

Details of derivative instruments designated as cash flow hedge as of December 31, 2018 and 2019, are as follows:

	2018			
	Notional amount	Assets	Liabilities	Changes in fair value
	(In millions of Korean won)			
Interest rate				
Swaps	₩ 4,142,336	₩17,891	₩12,766	₩ (6,364)
Currency				
Swaps	2,300,452	22,759	40,493	(16,658)
Total	<u>₩ 6,442,788</u>	<u>₩40,650</u>	<u>₩53,259</u>	<u>₩(23,022)</u>
	2019			
	Notional amount	Assets	Liabilities	Changes in fair value
	(In millions of Korean won)			
Interest rate				
Swaps	₩ 3,600,334	₩ 3,698	₩ 28,484	₩(25,997)
Currency				
Swaps	2,613,901	23,382	73,067	(38,534)
Total	<u>₩ 6,214,235</u>	<u>₩27,080</u>	<u>₩101,551</u>	<u>₩(64,531)</u>

Gains and losses from hedging instruments and hedged items attributable to the hedged risk for the years ended December 31, 2017, 2018 and 2019, are as follows:

	<u>2017</u>	<u>2018</u>	<u>2019</u>
	(In millions of Korean won)		
Gains (losses) on hedging instruments	₩(112,513)	₩(23,022)	₩(64,531)
Gains (losses) on effectiveness (amount recognized in other comprehensive income)	<u>(100,949)</u>	<u>(24,672)</u>	<u>(65,323)</u>
Gains (losses) on ineffectiveness (amount recognized in profit or loss)	<u>₩ (11,564)</u>	<u>₩ 1,650</u>	<u>₩ 792</u>

Amounts recognized in other comprehensive income and reclassified from equity to profit or loss for the years ended December 31, 2017, 2018 and 2019, are as follows:

	<u>2017</u>	<u>2018</u>	<u>2019</u>
	(In millions of Korean won)		
Amount recognized in other comprehensive income	₩(100,949)	₩(24,672)	₩(65,323)
Amount reclassified from equity to profit or loss	126,239	15,234	21,604
Tax effect	<u>(4,331)</u>	<u>400</u>	<u>10,537</u>
Amount recognized in other comprehensive income net of tax	<u>₩ 20,959</u>	<u>₩ (9,038)</u>	<u>₩(33,182)</u>

Hedge on Net Investments in Foreign Operations

Details of hedged item in hedge on foreign operation net investments hedge as of December 31, 2018 and 2019, are as follows:

	<u>2018</u>	
	<u>Changes in fair value</u>	<u>Other comprehensive income for hedge on net investment in a foreign operation</u>
	(In millions of Korean won)	
Hedge accounting		
Currency (foreign currency change risk)	₩ 25,198	₩ (33,092)

	<u>2019</u>	
	<u>Changes in fair value</u>	<u>Other comprehensive income for hedge on net investment in a foreign operation</u>
	(In millions of Korean won)	
Hedge accounting		
Currency (foreign currency change risk)	₩ 13,410	₩ (41,992)

Details of financial instruments designated as hedging instrument in hedge on net investments in foreign operations as of December 31, 2018 and 2019, is as follows:

	<u>2018</u>			
	<u>Nominal amount</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Changes in fair value</u>
	(In millions of Korean won)			
Currency				
Forwards	₩530,967	₩4,924	₩ 2,412	₩(21,877)
Financial debentures in foreign currencies	<u>89,448</u>	<u>—</u>	<u>89,109</u>	<u>(3,321)</u>
Total	<u>₩620,415</u>	<u>₩4,924</u>	<u>₩91,521</u>	<u>₩(25,198)</u>

	2019			
	Nominal amount	Assets	Liabilities	Changes in fair value
	(In millions of Korean won)			
Currency				
Forwards	₩275,569	₩3,407	₩ 5,302	₩(10,330)
Financial debentures in foreign currencies	97,255	—	97,255	(3,080)
Total	<u>₩372,824</u>	<u>₩3,407</u>	<u>₩102,557</u>	<u>₩(13,410)</u>

The fair value of non-derivative financial instruments designated as hedging instruments as of December 31, 2018 and 2019, are as follows:

	2018	2019
	(In millions of Korean won)	
Financial debentures in foreign currencies	₩ 88,785	₩ 97,737

Gain or loss from hedging instruments in hedge of net investments in foreign operations and hedged items attributable to the hedged risk for the years ended December 31, 2017, 2018 and 2019, are as follows:

	2017	2018	2019
	(In millions of Korean won)		
Gains (losses) on hedging instruments	₩35,929	₩(25,096)	₩(13,410)
Effective portion of gains (losses) on hedges of net investments in foreign operations (amount recognized in other comprehensive income)	34,800	(25,096)	(13,410)
Ineffective portion of gains (losses) on hedges of net investments in foreign operations (amount recognized in profit or loss)	<u>₩ 1,129</u>	<u>₩ —</u>	<u>₩ —</u>

The effective portion of gain (loss) on hedging instruments recognized in other comprehensive income for the years ended December 31, 2017, 2018 and 2019, are as follows:

	2017	2018	2019
	(In millions of Korean won)		
Amount recognized in other comprehensive income	₩34,800	₩(25,096)	₩(13,410)
Amount reclassified from equity to profit or loss	—	(12,330)	1,316
Tax effect	(8,186)	10,292	3,194
Amount recognized in other comprehensive income, net of tax	<u>₩26,614</u>	<u>₩(27,134)</u>	<u>₩ (8,900)</u>

10. Loans at Amortized Cost

Details of loans as of December 31, 2018 and 2019, are as follows:

	2018	2019
	(In millions of Korean won)	
Loans at amortized cost	₩ 321,058,158	₩ 341,363,805
Deferred loan origination fees and costs	753,126	728,270
Less: Allowances for loan losses	(2,609,681)	(2,408,016)
Carrying amount	<u>₩ 319,201,603</u>	<u>₩ 339,684,059</u>

Details of loans for other banks as of December 31, 2018 and 2019, are as follows:

	<u>2018</u>	<u>2019</u>
	(In millions of Korean won)	
Loans at amortized cost	₩ 3,484,210	₩ 4,011,246
Less: Allowances for loan losses	(620)	(432)
Carrying amount	<u>₩ 3,483,590</u>	<u>₩ 4,010,814</u>

Details of loan types and customer types of loans to customers, other than banks, as of December 31, 2018 and 2019, are as follows:

	2018			
	<u>Retail</u>	<u>Corporate</u>	<u>Credit card</u>	<u>Total</u>
	(In millions of Korean won)			
Loans in Korean won	₩152,523,852	₩124,334,950	₩ —	₩276,858,802
Loans in foreign currencies	259,015	4,711,234	—	4,970,249
Domestic import usance bills	—	2,817,174	—	2,817,174
Off-shore funding loans	—	844,954	—	844,954
Call loans	—	1,473,397	—	1,473,397
Bills bought in Korean won	—	3,057	—	3,057
Bills bought in foreign currencies	—	3,427,368	—	3,427,368
Guarantee payments under payment guarantee	46	4,104	—	4,150
Credit card receivables in Korean won	—	—	17,346,224	17,346,224
Credit card receivables in foreign currencies	—	—	7,834	7,834
Reverse repurchase agreements	—	3,341,700	—	3,341,700
Privately placed bonds	—	823,178	—	823,178
Factored receivables	446	5,939	—	6,385
Lease receivables	1,712,597	81,985	—	1,794,582
Loans for installment credit	4,582,913	25,107	—	4,608,020
Sub-total	<u>159,078,869</u>	<u>141,894,147</u>	<u>17,354,058</u>	<u>318,327,074</u>
Proportion (%)	49.97	44.57	5.46	100.00
Less: Allowances	(642,897)	(1,255,223)	(710,941)	(2,609,061)
Total	<u>₩158,435,972</u>	<u>₩140,638,924</u>	<u>₩16,643,117</u>	<u>₩315,718,013</u>

2019

	Retail	Corporate	Credit card	Total
	(In millions of Korean won)			
Loans in Korean won	₩159,232,495	₩130,383,260	₩ —	₩289,615,755
Loans in foreign currencies	433,399	8,125,029	—	8,558,428
Domestic import usance bills	—	2,617,862	—	2,617,862
Off-shore funding loans	—	1,387,798	—	1,387,798
Call loans	—	610,001	—	610,001
Bills bought in Korean won	—	2,843	—	2,843
Bills bought in foreign currencies	—	2,158,877	—	2,158,877
Guarantee payments under payment guarantee	36	3,312	—	3,348
Credit card receivables in Korean won	—	—	18,642,111	18,642,111
Credit card receivables in foreign currencies	—	—	6,299	6,299
Reverse repurchase agreements	—	6,149,458	—	6,149,458
Privately placed bonds	—	971,414	—	971,414
Factored receivables	117	167	—	284
Lease receivables	1,385,617	194,576	—	1,580,193
Loans for installment credit	5,737,458	38,700	—	5,776,158
Sub-total	<u>166,789,122</u>	<u>152,643,297</u>	<u>18,648,410</u>	<u>338,080,829</u>
Proportion (%)	49.33	45.15	5.52	100
Less: Allowances	(711,322)	(956,554)	(739,708)	(2,407,584)
Total	<u>₩166,077,800</u>	<u>₩151,686,743</u>	<u>₩17,908,702</u>	<u>₩335,673,245</u>

The changes in deferred loan origination fees and costs for the years ended December 31, 2018 and 2019, are as follows:

	2018				Ending
	Beginning	Increase	Decrease	Others	
	(In millions of Korean won)				
Deferred loan origination costs					
Loans in Korean won	₩632,680	₩417,719	₩(386,162)	₩ —	₩664,237
Other origination costs	126,265	77,464	(83,950)	1	119,780
Sub-total	758,945	495,183	(470,112)	1	784,017
Deferred loan origination fees					
Loans in Korean won	11,561	6,832	(9,338)	—	9,055
Other origination fees	27,568	9,927	(15,660)	1	21,836
Sub-total	39,129	16,759	(24,998)	1	30,891
Total	₩719,816	₩478,424	₩(445,114)	₩ —	₩753,126
	2019				
	Beginning	Increase	Decrease	Others	Ending
	(In millions of Korean won)				
Deferred loan origination costs					
Loans in Korean won	₩664,237	₩387,420	₩(406,352)	₩ —	₩645,305
Other origination costs	119,780	56,030	(79,432)	—	96,378
Sub-total	784,017	443,450	(485,784)	—	741,683
Deferred loan origination fees					
Loans in Korean won	9,055	7,238	(7,693)	—	8,600
Other origination fees	21,836	3,415	(20,439)	1	4,813
Sub-total	30,891	10,653	(28,132)	1	13,413
Total	₩753,126	₩432,797	₩(457,652)	₩ (1)	₩728,270

11. Allowances for Loan Losses

Changes in the allowances for loan losses for the years ended December 31, 2018 and 2019, are as follows:

	2018								
	Retails			Corporates			Credit cards		
	The financial instruments applying 12-month expected credit losses	The financial instruments applying lifetime expected credit losses	Impaired	The financial instruments applying 12-month expected credit losses	The financial instruments applying lifetime expected credit losses	Impaired	The financial instruments applying 12-month expected credit losses	The financial instruments applying lifetime expected credit losses	Impaired
Beginning ²	₩249,226	₩ 196,387	₩ 186,766	₩208,354	₩ 275,722	₩ 865,063	₩154,076	₩ 260,162	₩ 213,181
Transfer between stages									
Transfer to 12-month expected credit losses	106,143	(105,597)	(546)	38,360	(36,402)	(1,958)	45,824	(44,706)	(1,118)
Transfer to lifetime expected credit losses (non-impaired)	(99,242)	115,493	(16,251)	(36,518)	47,001	(10,483)	(23,345)	24,438	(1,093)
Transfer to lifetime expected credit losses (impaired)	(2,107)	(49,241)	51,348	(2,746)	(31,157)	33,903	(2,007)	(11,804)	13,811
Write-offs	—	(2)	(380,698)	—	(6)	(233,314)	—	—	(465,415)
Disposal	(1,707)	(1,795)	(1,661)	(72)	—	(14,172)	—	—	(47)
Provision (reversal) for loan losses ^{1,3}	(15,533)	60,180	350,578	7,927	62,901	58,515	5,919	61,935	488,975
Business combination	172	—	—	22	—	—	—	—	—
Others (change of currency ratio, etc.)	488	318	178	(1,015)	597	25,321	—	—	(7,845)
Ending	₩237,440	₩ 215,743	₩ 189,714	₩214,312	₩ 318,656	₩ 722,875	₩180,467	₩ 290,025	₩ 240,449

¹ Provision for credit losses in statements of comprehensive income also includes provision (reversal) for due from financial institutions (Note 7), and provision (reversal) for securities (Note 12), provision for unused commitments and guarantees (Note 23), provision (reversal) for financial guarantees contracts (Note 23), and provision (reversal) for other financial assets (Note 18).

² Prepared in accordance with IFRS 9.

³ Recovery of written-off loans amounting to ₩428,890 million is included

2019

	Retail				Corporates				Credit cards			
	The financial instruments applying 12-month expected credit losses		The financial instruments applying lifetime expected credit losses		The financial instruments applying 12-month expected credit losses		The financial instruments applying lifetime expected credit losses		The financial instruments applying 12-month expected credit losses		The financial instruments applying lifetime expected credit losses	
	Non-impaired	Impaired	Non-impaired	Impaired	Non-impaired	Impaired	Non-impaired	Impaired	Non-impaired	Impaired	Non-impaired	Impaired
Beginning	₩ 237,440	₩ 189,714	₩ 215,743	₩ 189,714	₩ 214,312	₩ 318,656	₩ 722,875	₩ 180,467	₩ 290,025	₩ 240,449		
Transfer between stages												
Transfer to 12-month expected credit losses	168,460	(167,957)	(503)	59,848	(46,312)	(13,536)	51,542	(915)				
Transfer to lifetime expected credit losses	(144,590)	160,509	(15,919)	(53,696)	141,398	(87,702)	24,529	(992)				
Transfer to lifetime expected credit losses (impaired)	(1,619)	(54,736)	56,355	(2,250)	(36,656)	38,906	(2,388)	16,765				
Write-offs	(2)	24	(443,034)	—	2	(239,319)	—	(506,255)				
Disposal	(486)	(70)	(782)	—	—	(8,909)	—	—				
Provision (reversal) for loan losses ^{1,2}	19,152	71,231	424,758	(3,540)	(89,234)	80,216	3,567	524,652				
Others (change of currency ratio, etc.)	25	161	(2,552)	395	2,456	(40,924)	—	(9,830)				
Ending	₩ 278,380	₩ 224,905	₩ 208,037	₩ 215,069	₩ 290,310	₩ 451,607	₩ 209,651	₩ 266,183	₩ 263,874			

¹ Provision for credit losses in statements of comprehensive income also includes provision (reversal) for due from financial institutions (Note 7), and provision (reversal) for securities (Note 12), provision for unused commitments and guarantees (Note 23), provision (reversal) for financial guarantees contracts (Note 23), and provision (reversal) for other financial assets (Note 18).

² Recovery of written-off loans amounting to ₩ 390,041 million is included.

The Group manages the contractual amount outstanding on financial assets that were written-off due to incomplete extinctive prescription and uncollected receivables during the reporting period, in which are still subject to enforcement activities; the balance of those written-off loans are respectively ₩ 12,067,272 million and ₩ 11,264,785 million as of December 31, 2018 and 2019.

Changes in the book value of loans at amortized cost for the year ended December 31, 2018 and 2019, are as follows:

	2018		
	12-month expected credit losses	Lifetime expected credit losses	
		Non-impaired	Impaired
(In millions of Korean won)			
Beginning	₩262,092,823	₩27,216,234	₩ 2,270,094
Transfer between stages			
Transfer to 12-month expected credit losses	8,399,033	(8,322,782)	(76,251)
Transfer to lifetime expected credit losses	(11,867,144)	11,938,263	(71,119)
Transfer to lifetime expected credit losses (impaired)	(780,095)	(901,109)	1,681,204
Write-offs	—	(8)	(1,079,427)
Disposal	(490,070)	(10,557)	(192,415)
Net increase(decrease) (Execution, repayment and others)	35,941,823	(3,502,876)	(434,337)
Ending	<u>₩293,296,370</u>	<u>₩26,417,165</u>	<u>₩ 2,097,749</u>
	2019		
	12-month expected credit losses	Lifetime expected credit losses	
		Non-impaired	Impaired
(In millions of Korean won)			
Beginning	₩293,296,370	₩ 26,417,165	₩ 2,097,749
Transfer between stages			
Transfer to 12-month expected credit losses	54,530,173	(54,412,664)	(117,509)
Transfer to lifetime expected credit losses	(57,514,696)	58,078,679	(563,983)
Transfer to lifetime expected credit losses (impaired)	(564,375)	(1,792,641)	2,357,016
Write-offs	(2)	26	(1,188,608)
Disposal	(889,880)	(18,163)	(188,080)
Net increase(decrease) (Execution, repayment and others)	27,519,419	(4,458,294)	(495,627)
Ending	<u>₩316,377,009</u>	<u>₩ 23,814,108</u>	<u>₩ 1,900,958</u>

12. Financial Assets at Fair Value through Profit or Loss and Financial Investments

Details of financial assets at fair value through profit or loss and financial investments as of December 31, 2018 and 2019, are as follows:

	2018
	(In millions of Korean won)
Financial assets at fair value through profit or loss	
Debt securities:	
Government and public bonds	₩ 7,922,936
Financial bonds	14,978,408
Corporate bonds	4,101,066
Asset-backed securities	84,382
Beneficiary certificates	10,252,377
Derivatives linked securities	3,516,626
Other debt securities	7,429,687
Equity securities:	
Stocks	1,094,441
Other equity securities	193,221
Loans:	
Private placed corporate bonds	823,071
Other loans	131,105
Due from financial institutions:	
Other due from financial institutions	381,719
Others	78,808
Sub-total	<u>50,987,847</u>
Financial Investments	
Financial assets measured at fair value through other comprehensive income	
Debt securities:	
Government and public bonds	3,475,214
Financial bonds	20,107,719
Corporate bonds	10,540,985
Asset-backed securities	1,100,041
Other debt securities	19,675
Equity securities:	
Stocks	2,262,379
Equity investments	38,584
Other equity securities	69,153
Loans:	
Private placed corporate bonds	389,822
Sub-total	<u>38,003,572</u>
Securities measured at amortized cost	
Debt securities:	
Government and public bonds	5,090,051
Financial bonds	6,847,055
Corporate bonds	6,943,332
Asset-backed securities	4,782,800
Allowance	(1,716)
Sub-total	<u>23,661,522</u>
Total financial investments	<u>₩ 61,665,094</u>

	2019
	(In millions of Korean won)
Financial assets at fair value through profit or loss	
Debt securities:	
Government and public bonds	₩ 6,569,472
Financial bonds	16,360,495
Corporate bonds	3,218,480
Asset-backed securities	124,898
Beneficiary certificates	12,375,326
Derivatives linked securities	3,623,648
Other debt securities	8,449,207
Equity securities:	
Stocks	1,716,149
Other equity securities	387,694
Loans:	
Private placed corporate bonds	265,499
Other loans	162,046
Due from financial institutions:	
Other due from financial institutions	216,367
Others	79,805
Sub-total	<u>53,549,086</u>
Financial Investments	
Financial assets measured at fair value through other comprehensive income	
Debt securities:	
Government and public bonds	9,501,642
Financial bonds	20,913,361
Corporate bonds	12,289,820
Asset-backed securities	832,160
Other debt securities	19,865
Equity securities:	
Stocks	2,377,994
Equity investments	41,042
Other equity securities	85,069
Loans:	
Private placed corporate bonds	375,098
Sub-total	<u>46,436,051</u>
Securities measured at amortized cost	
Debt securities:	
Government and public bonds	5,395,720
Financial bonds	8,157,428
Corporate bonds	7,536,805
Asset-backed securities	4,258,274
Allowance	(1,672)
Sub-total	<u>25,346,555</u>
Total financial investments	<u><u>₩ 71,782,606</u></u>

Dividend incomes from the equity securities measured at fair value through other comprehensive income for the years ended December 31, 2018 and 2019, are as follows:

		2018	
		From the financial asset derecognized	From the remaining financial asset
(In millions of Korean won)			
Equity securities at fair value through other comprehensive income			
Stocks	Listed	₩ —	₩ 22,173
	Non-listed	—	25,121
Equity investments		—	2,256
Other equity securities		2,508	1,798
		<u>₩ 2,508</u>	<u>₩ 51,348</u>
		2019	
		From the financial asset derecognized	From the remaining financial asset
(In millions of Korean won)			
Equity securities at fair value through other comprehensive income			
Stocks	Listed	₩ —	₩ 26,121
	Non-listed	—	25,599
Equity investments		—	95
Other equity securities		—	2,953
		<u>₩ —</u>	<u>₩ 54,768</u>

The derecognized equity securities, measured at fair value through other comprehensive income for the years ended December 31, 2018 and 2019, are as follows:

		2018	
		Disposal price	Accumulated OCI as of disposal date
(In millions of Korean won)			
Equity securities at fair value through other comprehensive income			
Stocks	Listed	₩ 26,877	₩ 18,330
	Non-listed	480	480
Other equity securities		80,000	2,567
		<u>₩ 107,357</u>	<u>₩ 21,377</u>
		2019	
		Disposal price	Accumulated OCI as of disposal date
(In millions of Korean won)			
Equity securities at fair value through other comprehensive income			
Stocks	Listed	₩ 18,342	₩ (25,652)
	Non-listed	1,671	169
Other equity securities		—	—
		<u>₩ 20,013</u>	<u>₩ (25,483)</u>

Provision, and reversal for the allowance of financial investments for the years ended December 31, 2018 and 2019, are as follows:

	2018		
	Impairment losses	Reversal of impairment	Total
	(In millions of Korean won)		
Securities measured at fair value through other comprehensive income	₩ 860	₩ 873	₩ (13)
Loans measured at fair value through other comprehensive income	963	826	137
Securities measured at amortized cost	296	282	14
Total	₩ 2,119	₩ 1,981	₩ 138

	2019		
	Impairment losses	Reversal of impairment	Total
	(In millions of Korean won)		
Securities measured at fair value through other comprehensive income	₩ 1,537	₩ 1,144	₩ 393
Loans measured at fair value through other comprehensive income	170	982	(812)
Securities measured at amortized cost	216	280	(64)
Total	₩ 1,923	₩ 2,406	₩ (483)

The impairment losses and the reversal of impairment losses in financial investments for the years ended December 31, 2017, is as follows:

	2017		
	Impairment	Reversal	Net
	(In millions of Korean won)		
Available-for-sale financial assets	₩(47,917)	₩ —	₩(47,917)

Changes in the allowances for debt securities for the years ended December 31, 2018 and 2019, are as follows:

	2018		
	12-month expected credit losses	Lifetime expected credit losses	
		Non-impaired	Impaired
	(In millions of Korean won)		
Beginning ¹	₩ 4,937	₩ 482	₩ 720
Transfer between stages			
Transfer to 12-month expected credit losses	125	(125)	—
Transfer to lifetime expected credit losses	—	—	—
Impairment	—	—	—
Disposal	(170)	—	—
Provision (reversal) for loan losses	716	(180)	(398)
Others (change of currency ratio, etc.)	49	16	—
Ending	₩ 5,657	₩ 193	₩ 322

¹ Prepared in accordance with IFRS 9.

	2019		
	12-month expected credit losses	Lifetime expected credit losses	
		Non-impaired	Impaired
(In millions of Korean won)			
Beginning	₩ 5,657	₩ 193	₩ 322
Transfer between stages			
Transfer to 12-month expected credit losses	437	(188)	(249)
Transfer to lifetime expected credit losses	(669)	669	—
Impairment	—	—	—
Disposal	(329)	—	—
Provision (reversal) for loan losses	219	(702)	—
Others (change of currency ratio, etc.)	55	28	(73)
Ending	<u>₩ 5,370</u>	<u>₩ —</u>	<u>₩ —</u>

13. Investments in Associates and Joint Ventures

Investments in associates and joint ventures as of December 31, 2018 and 2019, are as follows:

	2018				Industry	Location
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount		
(In millions of Korean won)						
Associates and Joint ventures¹⁴						
KB Pre IPO Secondary Venture						
Fund 1st ¹	15.19	₩ 1,454	₩ 1,649	₩ 1,649	Investment finance	Korea
KB GwS Private Securities						
Investment Trust	26.74	113,880	136,208	134,362	Investment finance	Korea
KB-KDBC New Technology						
Business Investment Fund ¹⁰	66.66	15,000	14,594	14,594	Investment finance	Korea
KB Star office Private real estate						
Investment Trust No.1	21.05	20,000	20,252	19,839	Investment finance	Korea
PT Bank Bukopin TBK ^{16,17}	22.00	116,422	106,484	113,932	Banking and foreign exchange transaction	Indonesia
Sun Surgery Center Inc.	28.00	2,682	2,760	2,715	Hospital	United States of America
Dae-A Leisure Co., Ltd. ⁸	49.36	—	1,613	578	Earth works	Korea
Doosung Metal Co., Ltd ⁸	26.52	—	(16)	—	Manufacture of metal products	Korea
					Research and experimental development on medical sciences and pharmacy	
RAND Bio Science Co., Ltd.	21.91	2,000	185	843	sciences and pharmacy	Korea
Balhae Infrastructure Company ¹	12.61	104,622	108,050	108,050	Investment finance	Korea
Aju Good Technology Venture						
Fund	38.46	18,038	18,134	18,134	Investment finance	Korea
					Manufacture of optical lens and elements	
Acts Co., Ltd. ¹²	7.14	500	(14)	—	and elements	Korea
SY Auto Capital Co., Ltd.	49.00	9,800	15,257	10,672	Installment loan	Korea
Wise Asset Management Co., Ltd. ⁹	33.00	—	—	—	Asset management	Korea
					Operation of highways and related facilities	
Incheon Bridge Co., Ltd. ¹	14.99	9,158	(16,689)	—	related facilities	Korea
Jungdong Steel Co., Ltd. ⁸	42.88	—	(433)	—	Wholesale of primary metal	Korea
Kendae Co., Ltd. ⁸	41.01	—	(252)	98	Screen printing	Korea
					Wholesale of agricultural and forestry machinery and equipment	
Dongjo Co., Ltd. ⁸	29.29	—	806	115	equipment	Korea
Dpaps Co., Ltd. ⁸	38.62	—	14	—	Wholesale of paper products	Korea
Big Dipper Co., Ltd.	29.33	440	166	280	Big data consulting	Korea
					Software development and supply	
Builton Co., Ltd. ¹⁴	21.96	800	67	304	supply	Korea
Shinla Construction Co., Ltd. ⁸	20.24	—	(551)	—	Specialty construction	Korea
					Manufacture of underwear and sleepwear	
Shinhwa Underwear Co., Ltd. ⁸	26.24	—	(57)	185	and sleepwear	Korea
					Manufacture of electric power storage system	
A-PRO Co., Ltd. ¹	13.71	1,500	1,554	1,403	power storage system	Korea
MJT&I Co., Ltd. ⁸	22.89	—	(606)	122	Wholesale of other goods	Korea
					Manufacture of luggage and other protective cases	
Jaeyang Industry Co., Ltd. ⁸	20.86	—	(552)	—	other protective cases	Korea
					Office, commercial and institutional building construction	
Jungdo Co., Ltd. ⁸	25.53	—	1,492	—	construction	Korea
					Manufacture of other general-purpose machinery	
Jinseung Tech Co., Ltd. ⁸	30.04	—	(176)	—	n.e.c.	Korea
					Manufacture of hand-operated kitchen appliances and metal ware	
Terra Co., Ltd. ⁸	24.06	—	2	—	and metal ware	Korea

	2018				Industry	Location
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount		
					(In millions of Korean won)	
Paycoms Co., Ltd. ¹¹	11.70	800	71	103	System software publishing	Korea
Food Factory Co., Ltd. ¹³	22.22	1,000	206	928	Farm product distribution industry	Korea
Korea NM Tech Co., Ltd. ⁸	22.41	—	552	—	Manufacture of motor vehicles, trailers and semitrailers	Korea
KB IGen Private Equity Fund No.1 ¹	0.03	—	—	—	Investment finance	Korea
KB No.9 Special Purpose Acquisition Company ¹	0.11	24	31	31	SPAC	Korea
KB No.10 Special Purpose Acquisition Company ^{1,2}	0.19	10	20	20	SPAC	Korea
KB No.11 Special Purpose Acquisition Company ^{1,3}	0.31	10	19	19	SPAC	Korea
KB Private Equity FundIII ¹	15.68	8,000	7,830	7,830	Investment finance	Korea
Korea Credit Bureau Co., Ltd. ¹	9.00	4,500	5,941	5,941	Credit information	Korea
KoFC KBIC Frontier Champ 2010-5(PEF)	50.00	364	233	233	Investment finance	Korea
KoFC POSCO HANHWA KB shared growth Private Equity Fund No.2	25.00	12,970	14,601	14,601	Investment finance	Korea
Keystone-Hyundai Securities No. 1 Private Equity Fund ¹	5.64	1,842	1,581	1,581	Investment finance	Korea
POSCO-KB Shipbuilding Fund	31.25	5,000	4,463	4,463	Investment finance	Korea
GH Real Estate I LP	42.00	17,678	17,252	17,252	Asset management	Guernsey
KB-TS Technology Venture Private Equity Fund ¹⁰	56.00	14,224	13,777	13,777	Investment finance	Korea
KB-Brain KOSDAQ Scale-up New Technology Business Investment Fund ¹⁰	42.55	8,000	7,930	7,930	Investment finance	Korea
KB-SJ Tourism Venture Fund ^{1,10}	18.52	1,500	1,386	1,386	Investment finance	Korea
UNION Media Commerce Fund	29.00	1,000	962	962	Investment finance	Korea
CHONG IL MACHINE & TOOLS CO., LTD. ⁸	21.71	—	(107)	—	Machinery and equipment wholesale	Korea
IMT TECHNOLOGY CO., LTD. ⁸	25.29	—	18	—	Computer Peripherals Distribution	Korea
IWON ALLOY CO., LTD. ⁸	23.31	—	394	—	Manufacture of smelting, refining and alloys	Korea
CARLIFE CO., LTD. ⁸	24.39	—	(75)	—	Publishing of magazines and periodicals (publishing industry)	Korea
COMPUTERLIFE CO., LTD. ⁸	45.71	—	(329)	—	Publishing of magazines and periodicals (publishing industry)	Korea
SKYDIGITAL INC. ⁸	20.40	—	(142)	—	Multi Media, Manufacture of Multi Media Equipment	Korea
Jo Yang Industrial Co., LTD. ⁸	23.14	—	75	—	Manufacture of Special Glass	Korea
Total		<u>₩ 493,218</u>	<u>₩ 486,630</u>	<u>₩ 504,932</u>		

2019

	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
(In millions of Korean won)						
Associates and Joint ventures						
KB Pre IPO Secondary Venture Fund Ist ¹	15.19	₩ 1,137	₩ 1,705	₩ 1,705	Investment finance	Korea
KB GwS Private Securities Investment Trust	26.74	113,880	138,013	136,168	Investment finance	Korea
KB-KDBC New Technology Business Investment Fund ¹⁰	66.66	20,000	18,988	18,988	Investment finance	Korea
KB Star office Private real estate Investment Trust No.1	21.05	20,000	19,839	19,839	Investment finance	Korea
PT Bank Bukopin TBK ^{16,17}	22.00	116,422	115,321	121,381	Banking and foreign exchange transaction	Indonesia
Dae-A Leisure Co., Ltd. ⁸	49.36	—	1,613	578	Earth works	Korea
Doosung Metal Co., Ltd. ⁸	26.52	—	(62)	—	Manufacture of metal products	Korea
RAND Bio Science Co., Ltd. ¹	14.92	2,000	1,037	—	Research and experimental development on medical sciences and pharmacy	Korea
Balhae Infrastructure Company ¹	12.61	105,214	101,391	101,391	Investment finance	Korea
Aju Good Technology Venture Fund	38.46	19,998	23,016	23,016	Investment finance	Korea
Acts Co., Ltd. ¹²	7.14	500	(119)	—	Manufacture of optical lens and elements	Korea
SY Auto Capital Co., Ltd.	49.00	9,800	17,736	12,725	Installment loan	Korea
Wise Asset Management Co., Ltd. ⁹	33.00	—	—	—	Asset management	Korea
Incheon Bridge Co., Ltd. ¹	14.99	9,158	(14,746)	—	Operation of highways and related facilities	Korea
Jungdong Steel Co., Ltd. ⁸	42.88	—	(433)	—	Wholesale of primary metal	Korea
Kendae Co., Ltd. ⁸	41.01	—	(252)	98	Screen printing	Korea
Dongjo Co., Ltd. ⁸	29.29	—	806	115	Wholesale of agricultural and forestry machinery and equipment	Korea
Dpaps Co., Ltd. ⁸	38.62	—	—	—	Wholesale of paper products	Korea
Big Dipper Co., Ltd.	29.33	440	10	125	Big data consulting	Korea
Shinla Construction Co., Ltd. ⁸	20.24	—	(551)	—	Specialty construction	Korea
Shinwa Underwear Co., Ltd. ⁸	26.24	—	16	258	Manufacture of underwear and sleepwear	Korea
A-PRO Co., Ltd. ¹	15.19	1,500	2,565	2,790	Manufacture of electric power storage system	Korea
MJT&I Co., Ltd. ⁸	22.89	—	(613)	116	Wholesale of other goods	Korea
Jaeyang Industry Co., Ltd. ⁸	20.86	—	(552)	—	Manufacture of luggage and other protective cases	Korea
Jungdo Co., Ltd. ⁸	25.53	—	1,492	—	Office, commercial and institutional building construction	Korea
Jinseung Tech Co., Ltd. ⁸	30.04	—	(194)	—	Manufacture of other general-purpose machinery n.e.c.	Korea
Terra Co., Ltd. ⁸	24.06	—	2	—	Manufacture of hand-operated kitchen appliances and metal ware	Korea
Paycoms Co., Ltd. ¹¹	11.7	800	17	45	System software publishing	Korea
Food Factory Co., Ltd. ¹³	22.22	1,000	398	1,000	Farm product distribution industry	Korea
Korea NM Tech Co., Ltd. ⁸	22.41	—	552	—	Manufacture of motor vehicles, trailers and semitrailers	Korea

2019

	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
(In millions of Korean won)						
KB IGen Private Equity Fund No.1 ¹	0.03	—	—	—	Investment finance	Korea
KB No.17 Special Purpose Acquisition Company ^{1,4}	0.02	1	1	1	SPAC	Korea
KB No.18 Special Purpose Acquisition Company ^{1,5}	0.02	2	3	3	SPAC	Korea
KB No.19 Special Purpose Acquisition Company ^{1,6}	0.01	1	2	2	SPAC	Korea
KB No.20 Special Purpose Acquisition Company ^{1,7}	0.02	1	1	1	SPAC	Korea
KBSP Private Equity Fund IV ^{1,10}	14.95	6,100	5,904	5,904	Investment finance	Korea
KB Private Equity Fund III ¹	15.69	8,000	7,754	7,754	Investment finance	Korea
Korea Credit Bureau Co., Ltd. ¹ ..	9	4,500	5,991	5,991	Credit information	Korea
KoFC POSCO HANHWA KB shared growth Private Equity Fund No.2	25	12,970	13,616	13,616	Investment finance	Korea
Keystone-Hyundai Securities No. 1 Private Equity Fund ¹	4.49	1,908	1,625	1,625	Investment finance	Korea
KB Social Impact Fund	30	1,500	1,465	1,465	Investment finance	Korea
KB-Solidus Global Healthcare Fund	43.33	42,697	45,021	45,718	Investment finance	Korea
POSCO-KB Shipbuilding Fund	31.25	7,500	6,847	6,847	Investment finance	Korea
GH Real Estate I LP	42	17,678	19,042	19,042	Asset management	Guernsey
KB-TS Technology Venture Private Equity Fund ¹⁰	56	19,824	19,731	19,731	Investment finance	Korea
KB-Brain KOSDAQ Scale-up New Technology Business Investment Fund ¹⁰	42.55	21,250	20,504	19,752	Investment finance	Korea
KB-SJ Tourism Venture Fund ^{1,10}	18.52	3,000	2,761	2,761	Investment finance	Korea
UNION Media Commerce Fund	28.99	1,000	961	961	Investment finance	Korea
KB-Stonebridge Secondary Private Equity Fund ¹	14.56	5,215	4,944	4,944	Investment finance	Korea
KB SPROTT Renewable Private Equity Fund I	37.69	1,667	1,295	1,295	Investment finance	Korea
KB-UTC Inno-Tech Venture Fund	44.29	450	417	417	Investment finance	Korea
CHONG IL MACHINE & TOOLS CO.,LTD. ⁸	21.71	—	(126)	—	Machinery and equipment wholesale	Korea
IMT TECHNOLOGY CO., LTD. ⁸	25.29	—	22	3	Computer Peripherals Distribution	Korea
IWON ALLOY CO.,LTD. ⁸	23.31	—	394	—	Manufacture of smelting, refining and alloys	Korea
CARLIFE CO.,LTD. ⁸	24.39	—	(75)	—	Publishing of magazines and periodicals (publishing industry)	Korea
COMPUTERLIFE CO.,LTD. ⁸	45.71	—	(260)	69	Publishing of magazines and periodicals (publishing industry)	Korea
SKYDIGITAL INC. ⁸	20.4	—	(248)	—	Multi Media, Manufacture of Multi Media Equipment	Korea
JO YANG INDUSTRIAL CO., LTD. ⁸	23.14	—	75	—	Manufacture of Special Glass	Korea
IL-KWANG ELECTRONIC MATERIALS CO.,LTD. ⁸	29.06	—	(398)	—	Electronic parts	Korea

	2019			Industry	Location	
	Ownership (%)	Acquisition cost	Share of net asset amount			Carrying amount
(In millions of Korean won)						
SO-MYUNG RECYCLING CO.,LTD. ⁸	20.23	—	184	—	Non-ferrous metals Other wireless communication equipment	Korea
IDTECK CO., LTD. ⁸	32.8	—	(103)	—	manufacturing	Korea
Seyoon Development Company. ⁸	26.95	—	2	—	Civil facilities construction	Korea
PIP System CO., LTD. ⁸	20.72	—	27	—	Print equipment	Korea
Total		<u>₩ 577,113</u>	<u>₩ 584,374</u>	<u>₩ 598,240</u>		

- ¹ As of December 31, 2018 and 2019, the Group is represented on the governing bodies of its associates. Therefore, the Group has a significant influence over the decision-making process relating to their financial and business policies.
- ² The market value of KB No.10 Special Purpose Acquisition Company, reflecting the quoted market price as of December 31, 2018, amounts to ₩ 20 million.
- ³ The market value of KB No.11 Special Purpose Acquisition Company, reflecting the quoted market price as of December 31, 2018, amounts to ₩ 21 million.
- ⁴ The market value of KB No.17 Special Purpose Acquisition Company, reflecting the quoted market price as of December 31, 2019, amounts to ₩ 2 million.
- ⁵ The market value of KB No.18 Special Purpose Acquisition Company, reflecting the quoted market price as of December 31, 2019, amounts to ₩ 4 million.
- ⁶ The market value of KB No.19 Special Purpose Acquisition Company, reflecting the quoted market price as of December 31, 2019, amounts to ₩ 2 million.
- ⁷ The market value of KB No.20 Special Purpose Acquisition Company, reflecting the quoted market price as of December 31, 2019, amounts to ₩ 2 million.
- ⁸ Reclassified to investments in associates due to termination of rehabilitation procedures.
- ⁹ Carrying amount of the investment has been recognized as a loss from the date Hyundai Securities Co., Ltd. was included in the consolidation scope.
- ¹⁰ In order to direct relevant activities, it is necessary to obtain the consent of the two co-operative members; the Group has applied the equity method as the Group cannot control the investee by itself.
- ¹¹ The ownership of Paycoms Co., Ltd. would be 22.96% and 22.96% as of December 31, 2018 and 2019, respectively, considering the potential voting rights from convertible bond.
- ¹² The ownership of Acts Co., Ltd. would be 27.22% and 27.22% as of December 31, 2018 and 2019, respectively, considering the potential voting rights from convertible bond.
- ¹³ The ownership of Food Factory Co., Ltd. would be 30.00% and 30.00% as of December 31, 2018 and 2019, respectively, considering the potential voting rights from convertible bond.
- ¹⁴ The ownership of Bilton Co., Ltd. would be 26.86% as of December 31, 2018, considering the potential voting rights from convertible bond.
- ¹⁵ In accordance with IAS 28 *Investments in Associates and Joint Ventures*, application of the equity method is exempted, and the Group designates its investments measured at fair value through profit or loss in Rainist Co., Ltd., RMGP Bio-Pharma Investment Fund, L.P., RMGP Bio-Pharma Investment, L.P., HEYBIT, Inc., Hasys, Stratio, Inc., Honest Fund Co., Ltd., Cellincells Co., Ltd., CY CO., Ltd., ZOYI corporation INC., KOSESEJITO CO., LTD., Bomapp Inc., KB Cape No.1 Private Equity Fund., Mitoimmune Therapeutics, BNF Corporation Ltd., Fabric Types CO.,LTD..
- ¹⁶ The Group has entered into an agreement with PT Bosowa Corporindo, the major shareholder of PT Bank Bukopin TBK. Under this agreement, the Group has a right of first refusal, a tag-along right and a drag-along right. The drag-along right can be exercised for the duration of two years after three years from the acquisition date, subject to the occurrence of certain situations as defined in the agreement.
- ¹⁷ The fair value of PT Bank Bukopin TBK ordinary share, reflecting the quoted market price, is ₩ 53,540 million and ₩ 47,709 million as of December 31, 2018 and 2019.

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

	2018 ¹						
	Total assets	Total liabilities	Share capital	Equity	Share of net asset amount	Unrealized gains (losses)	Consolidated carrying amount
	(In millions of Korean won)						
Associates and Joint ventures							
KB Pre IPO Secondary Venture							
Fund 1 st	₩ 10,864	₩ 9	₩ 10,120	₩ 10,855	₩ 1,649	₩ —	₩ 1,649
KB GwS Private Securities							
Investment Trust	516,115	741	425,814	515,374	136,208	(1,846)	134,362
KB-KDBC New Technology							
Business Investment Fund	22,492	602	22,500	21,890	14,594	—	14,594
KB Star office Private real estate							
Investment Trust No.1	218,025	121,828	95,000	96,197	20,252	(413)	19,839
PT Bank Bukopin TBK ²	7,195,249	6,711,233	106,536	484,016	106,484	7,448	113,932
Sun Surgery Center Inc	10,468	610	9,428	9,858	2,760	(45)	2,715
RAND Bio Science Co., Ltd.	2,913	2,070	913	843	185	658	843
Balhae Infrastructure Company ..	859,040	1,843	829,995	857,197	108,050	—	108,050
Aju Good Technology Venture							
Fund	47,216	66	46,900	47,150	18,134	—	18,134
Acts Co., Ltd.	6,666	6,823	117	(157)	(14)	14	—
SY Auto Capital Co., Ltd.	89,948	58,812	20,000	31,136	15,257	(4,585)	10,672
Incheon Bridge Co., Ltd.	617,560	728,896	61,096	(111,336)	(16,689)	16,689	—
Big Dipper Co., Ltd.	723	157	1,500	566	166	114	280
Builton Co., Ltd.	1,908	1,604	325	304	67	237	304
A-PRO Co., Ltd.	29,438	18,099	1,713	11,339	1,554	(151)	1,403
Paycoms Co., Ltd.	2,126	1,520	855	606	71	32	103
Food Factory Co., Ltd.	4,096	3,168	450	928	206	722	928
KB IGen Private Equity Fund							
No. 1	148	8	170	140	—	—	—
KB No.9 Special Purpose							
Acquisition Company	30,288	2,629	1,382	27,659	31	—	31
KB No.10 Special Purpose							
Acquisition Company	11,960	1,704	521	10,256	20	—	20
KB No.11 Special Purpose							
Acquisition Company	6,807	742	321	6,065	19	—	19
KB Private Equity FundIII	49,924	5	51,000	49,919	7,830	—	7,830
Korea Credit Bureau Co., Ltd. ...	88,797	22,788	10,000	66,009	5,941	—	5,941
KoFC KBIC Frontier Champ							
2010-5(PEF)	469	3	300	466	233	—	233
KoFC POSCO HANHWA KB							
shared growth Private Equity							
Fund No. 2	59,464	1,061	51,880	58,403	14,601	—	14,601
Keystone-Hyundai Securities							
No. 1 Private Equity Fund	177,024	151,862	34,114	25,162	1,581	—	1,581
POSCO-KB Shipbuilding							
Fund	14,287	4	16,000	14,283	4,463	—	4,463
GH Real Estate I LP	41,206	190	42,093	41,016	17,252	—	17,252
KB-TS Technology Venture							
Private Equity Fund	24,810	208	25,400	24,602	13,777	—	13,777
KB-Brain KOSDAQ Scale-up							
New Technology Business							
Investment Fund	18,820	181	18,800	18,639	7,930	—	7,930
KB-SJ Tourism Venture Fund ...	7,484	2	8,100	7,482	1,386	—	1,386
UNION Media Commerce							
Fund	3,318	—	3,450	3,318	962	—	962

	2018 ¹				
	Operating income	Profit (loss)	Other comprehensive income	Total comprehensive income	Dividends
	(In millions of Korean won)				
Associates and Joint ventures					
KB Pre IPO Secondary Venture Fund					
1st	₩ 2,140	₩ 1,404	₩ —	₩ 1,404	₩ —
KB GwS Private Securities Investment					
Trust	42,502	41,524	—	41,524	8,160
KB-KDBC New Technology Business					
Investment Fund	39	(568)	—	(568)	—
KB Star office Private real estate					
Investment Trust No.1	14,092	6,135	—	6,135	1,162
PT Bank Bukopin TBK ²	148,793	(8,843)	(2,325)	(11,168)	—
Sun Surgery Center Inc.	873	71	342	413	—
RAND Bio Science Co., Ltd.	—	(2,076)	—	(2,076)	—
Balhae Infrastructure Company	61,525	54,241	—	54,241	6,804
Aju Good Technology Venture Fund	2,491	1,356	—	1,356	—
Acts Co., Ltd.	2,472	(628)	—	(628)	—
SY Auto Capital Co., Ltd.	16,525	2,729	(151)	2,578	—
Incheon Bridge Co., Ltd.	94,373	(2,757)	—	(2,757)	—
Big Dipper Co., Ltd.	441	(543)	—	(543)	—
Builton Co., Ltd.	1,867	(287)	—	(287)	—
A-PRO Co., Ltd.	47,926	2,015	—	2,015	—
Paycoms Co., Ltd.	686	(409)	—	(409)	—
Food Factory Co., Ltd.	4,753	412	—	412	—
KB IGen Private Equity Fund No. 1	—	3,693	—	3,693	—
KB No.9 Special Purpose Acquisition					
Company	—	262	—	262	—
KB No.10 Special Purpose Acquisition					
Company	—	73	—	73	—
KB No.11 Special Purpose Acquisition					
Company	—	218	—	218	—
KB Private Equity FundIII	—	(438)	—	(438)	—
Korea Credit Bureau Co., Ltd.	78,018	9,901	—	9,901	112
KoFC KBIC Frontier Champ					
2010-5(PEF)	1,460	1,453	—	1,453	999
KoFC POSCO HANHWA KB shared					
growth Private Equity Fund No. 2	2,401	(12,313)	—	(12,313)	—
Keystone-Hyundai Securities No. 1 Private					
Equity Fund	15,507	(3,194)	—	(3,194)	—
POSCO-KB Shipbuilding Fund	160	(1,222)	—	(1,222)	—
GH Real Estate I LP	4,293	3,089	(307)	2,782	1,595
KB-TS Technology Venture Private Equity					
Fund	—	(798)	—	(798)	—
KB-Brain KOSDAQ Scale-up New					
Technology Business Investment					
Fund	20	(161)	—	(161)	—
KB-SJ Tourism Venture Fund	—	(618)	—	(618)	—
UNION Media Commerce Fund	—	(132)	—	(132)	—

2019¹

	Total assets	Total liabilities	Share capital	Equity	Share of net asset amount	Unrealized gains (losses)	Consolidated carrying amount
(In millions of Korean won)							
Associates and Joint ventures							
KB Pre IPO Secondary Venture Fund 1st	₩ 11,237	₩ 20	₩ 8,690	₩ 11,217	₩ 1,705	₩ —	₩ 1,705
KB GwS Private Securities Investment							
Trust	522,865	741	425,814	522,124	138,013	(1,845)	136,168
KB-KDBC New Technology Business							
Investment Fund	29,086	603	30,000	28,483	18,988	—	18,988
KB Star office Private real estate Investment							
Trust No.1	218,611	122,465	95,000	96,146	19,839	—	19,839
PT Bank Bukopin TBK ²	8,148,013	7,623,829	106,536	524,184	115,321	6,060	121,381
RAND Bioscience Co., Ltd.	7,026	74	1,340	6,952	1,037	(1,037)	—
Balhae Infrastructure Company	806,218	1,854	834,695	804,364	101,391	—	101,391
Aju Good Technology Venture Fund	60,675	828	52,000	59,847	23,016	—	23,016
Acts Co., Ltd.	5,302	6,973	117	(1,671)	(119)	119	—
SY Auto Capital Co., Ltd.	88,611	52,415	20,000	36,196	17,736	(5,011)	12,725
Incheon Bridge Co., Ltd.	609,194	707,563	61,096	(98,369)	(14,746)	14,746	—
Big Dipper Co., Ltd.	370	336	1,500	34	10	115	125
A-PRO Co., Ltd.	47,164	30,281	2,468	16,883	2,565	225	2,790
Paycoms Co., Ltd.	1,763	1,620	855	143	17	28	45
Food Factory Co., Ltd.	5,587	3,797	450	1,790	398	602	1,000
KB IGen Private Equity Fund No. 1	191	8	7,270	183	—	—	—
KB No.17 Special Purpose Acquisition							
Company	11,857	1,328	546	10,529	1	—	1
KB No.18 Special Purpose Acquisition							
Company	17,242	2,022	782	15,220	3	—	3
KB No.19 Special Purpose Acquisition							
Company	9,123	924	430	8,199	2	—	2
KB No.20 Special Purpose Acquisition							
Company	1,991	1,372	50	619	1	—	1
KBSP Private Equity Fund IV	39,492	2	40,800	39,490	5,904	—	5,904
KB Private Equity Fund III	49,437	4	51,000	49,433	7,754	—	7,754
Korea Credit Bureau Co., Ltd.	96,855	30,289	10,000	66,566	5,991	—	5,991
KoFC POSCO HANHWA KB shared growth							
Private Equity Fund No. 2	55,524	1,063	51,880	54,461	13,616	—	13,616
Keystone-Hyundai Securities No. 1 Private							
Equity Fund	187,156	153,842	42,837	33,314	1,625	—	1,625
KB Social Impact Fund	4,885	3	5,000	4,882	1,465	—	1,465
KB-Solidus Global Healthcare Fund	103,896	5	61,800	103,891	45,021	697	45,718
POSCO-KB Shipbuilding Fund	21,916	4	24,000	21,912	6,847	—	6,847
GH Real Estate I LP	45,340	61	42,093	45,279	19,042	—	19,042
KB-TS Technology Venture Private Equity							
Fund	36,445	1,212	35,400	35,233	19,731	—	19,731
KB-Brain KOSDAQ Scale-up New							
Technology Business Investment Fund	48,369	185	51,700	48,184	20,504	(752)	19,752
KB-SJ Tourism Venture Fund	14,914	4	16,200	14,910	2,761	—	2,761
UNION Media Commerce Fund	3,318	4	3,450	3,314	961	—	961
KB-Stonebridge Secondary Private Equity							
Fund	34,450	507	35,805	33,943	4,944	—	4,944
KB SPROTT Renewable Private Equity							
FundI	3,686	249	9,640	3,437	1,295	—	1,295
KB-UTC Inno-Tech Venture Fund	1,016	75	1,016	941	417	—	417

	2019 ¹				
	Operating income	Profit (loss)	Other comprehensive income	Total comprehensive income	Dividends
	(In millions of Korean won)				
Associates and Joint ventures					
KB Pre IPO Secondary Venture Fund 1st . . .	₩ 3,225	₩ 2,452	₩ —	₩ 2,452	₩ —
KB GwS Private Securities Investment Trust	42,503	41,524	—	41,524	9,297
KB-KDBC New Technology Business Investment Fund	371	(638)	—	(638)	—
KB Star office Private real estate Investment Trust No.1	14,455	6,004	—	6,004	—
PT Bank Bukopin TBK ²	721,169	(5,612)	45,780	40,168	—
RAND Bioscience Co., Ltd.	—	(2,928)	—	(2,928)	—
Balhae Infrastructure Company	62,113	(3,153)	—	(3,153)	6,855
Aju Good Technology Venture Fund	9,288	7,734	—	7,734	—
Acts Co., Ltd.	1,542	(507)	—	(507)	—
SY Auto Capital Co., Ltd.	20,394	5,292	(215)	5,077	—
Incheon Bridge Co., Ltd.	107,178	9,127	—	9,127	—
Big Dipper Co., Ltd.	598	(532)	—	(532)	—
A-PRO Co., Ltd.	47,725	7,702	—	7,702	—
Paycoms Co., Ltd.	262	(343)	—	(343)	—
Food Factory Co., Ltd.	6,807	664	—	664	—
KB IGen Private Equity Fund No. 1	—	5,851	—	5,851	—
KB No.17 Special Purpose Acquisition Company	—	8	—	8	—
KB No.18 Special Purpose Acquisition Company	—	(3)	—	(3)	—
KB No.19 Special Purpose Acquisition Company	—	(25)	—	(25)	—
KB No.20 Special Purpose Acquisition Company	—	(9)	—	(9)	—
KBSP Private Equity Fund IV	39	(1,304)	—	(1,304)	—
KB Private Equity Fund III	—	(485)	—	(485)	—
Korea Credit Bureau Co., Ltd.	91,200	1,480	—	1,480	135
KoFC POSCO HANHWA KB shared growth Private Equity Fund No. 2	4,077	(3,911)	—	(3,911)	—
Keystone-Hyundai Securities No. 1 Private Equity Fund	18,342	(572)	—	(572)	—
KB Social Impact Fund	8	(118)	—	(118)	—
KB-Solidus Global Healthcare Fund	13,085	8,708	—	8,708	—
POSCO-KB Shipbuilding Fund	1,000	(371)	—	(371)	—
GH Real Estate I LP	5,043	3,698	565	4,263	—
KB-TS Technology Venture Private Equity Fund	1,643	632	—	632	—
KB-Brain KOSDAQ Scale-up New Technology Business Investment Fund . . .	138	(3,355)	—	(3,355)	—
KB-SJ Tourism Venture Fund	—	(673)	—	(673)	—
UNION Media Commerce Fund	—	(3)	—	(3)	—
KB-Stonebridge Secondary Private Equity Fund	346	(1,856)	—	(1,856)	—
KB SPROTT Renewable Private Equity FundI	1	(986)	—	(986)	—
KB-UTC Inno-Tech Venture Fund	—	(75)	—	(75)	—

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

² The amounts of goodwill on PT Bank Bukopin TBK is ₩ 4,101 million and ₩ 4,528 million as of December 31, 2018 and December 31, 2019, respectively.

Changes in investments in associates and joint ventures for the years ended December 31, 2018 and 2019, are as follows:

		2018														
		Beginning ¹	Acquisition and others	Disposal and others	Dividends	Gains (losses) on equity- method accounting	Other- comprehensive income	Others	Ending							
		(In millions of Korean won)														
Associates and Joint ventures																
KB Pre IPO Secondary Venture Fund																
1st	₩	1,551	₩	—	₩	(217)	₩	—	₩	1,649						
KB GwS Private Securities Investment Trust		131,420		—		(8,160)		11,102		134,362						
KB-KDBC New Technology Business Investment Fund		4,972		10,000		—		(378)		14,594						
KB Star office Private real estate Investment Trust No.1		19,709		—		(1,162)		1,292		19,839						
PT Bank Bukopin TBK		—		116,422		—		(1,946)		113,932						
Sun Surgery Center Inc.		2,682		—		—		33		2,715						
Dae-A Leisure Co., Ltd.		—		—		—		3,698		578						
RAND Bio Science Co., Ltd.		2,000		—		—		(1,157)		843						
Balhae Infrastructure Company		105,190		4,645		(1,817)		(6,804)		6,836						
Bungaejangter Inc. ³		3,484		—		(1,384)		—		(2,100)						
Aju Good Technology Venture Fund		8,230		9,808		—		96		18,134						
Acts Co., Ltd. ²		500		—		—		—		(500)						
SY Auto Capital Co., Ltd.		8,070		—		—		2,676		(74)						
Kendae Co., Ltd.		127		—		—		(29)		98						
Dong Jo Co., Ltd.		—		—		—		115		115						
Big Dipper Co., Ltd.		440		—		—		(160)		280						
Builton Co., Ltd.		800		—		—		(496)		304						
Shinwa Underwear Co., Ltd.		138		—		—		47		185						
A-PRO Co., Ltd.		1,500		—		—		(97)		1,403						
MJT&I Co., Ltd.		127		—		—		(5)		122						
Inno Lending Co., Ltd.		230		—		(230)		—		—						
Terra Co., Ltd.		20		—		—		(20)		—						
Paycoms Co., Ltd.		800		—		—		(697)		103						
Food Factory Co., Ltd.		1,000		—		—		(72)		928						
KB IGen Private Equity Fund No. 1		3		—		(4)		1		—						
KB No.8 Special Purpose Acquisition Company		20		—		(20)		—		—						
KB No.9 Special Purpose Acquisition Company		31		—		—		—		31						
KB No.10 Special Purpose Acquisition Company		20		—		—		—		20						
KB No.11 Special Purpose Acquisition Company		19		—		—		1		(1)						
KB Private Equity Fund III		7,899		—		—		(69)		7,830						
Korea Credit Bureau Co., Ltd.		5,056		—		—		(112)		997						
KoFC KBIC Frontier Champ 2010-5(PEF)		7,120		—		(6,121)		(999)		233						
KoFC POSCO HANHWA KB shared growth Private Equity Fund No. 2		17,713		—		—		(1,873)		(1,239)						
Keystone-Hyundai Securities No. 1 Private Equity Fund		1,761		—		—		(180)		—						
POSCO-KB Shipbuilding Fund		2,345		2,500		—		(382)		—						
Hyundai-Tongyang Agrifood Private Equity Fund		543		—		(74)		(469)		—						
GH Real Estate I LP		—		17,678		—		(1,595)		1,298						
KB-TS Technology Venture Private Equity Fund		—		14,224		—		(447)		(129)						
KB-Brain KOSDAQ Scale-up New Technology Business Investment Fund		—		8,000		—		(70)		—						
KB-SJ Tourism Venture Fund		—		1,500		—		(114)		—						
CUBE Growth Fund No.2		—		1,300		(1,300)		—		—						
UNION Media Commerce Fund		—		1,000		—		(38)		—						
Total	₩	335,520	₩	187,077	₩	(11,167)	₩	(19,301)	₩	20,510	₩	(5,107)	₩	(2,600)	₩	504,932

¹ Prepared in accordance with IFRS 9

² Recognized ₩ 500 million loss in relation to impaired capital.

³ The amount of reclassification as financial assets is ₩ 2,100 million.

⁴ Gain on disposal of investments in associates and joint ventures for the year ended December 31, 2018 is ₩ 4,250 million.

2019

	Beginning ¹	Acquisition and others	Disposal and others	Dividends	Gains (losses) on equity-method accounting	Other-comprehensive income	Impairment loss	Ending
	(In millions of Korean won)							
Associates and Joint ventures								
KB Pre IPO Secondary Venture Fund 1st	₩ 1,649	₩ —	₩ (317)	₩ —	₩ 373	₩ —	₩ —	₩ 1,705
KB GwS Private Securities Investment Trust	134,362	—	—	(9,297)	11,103	—	—	136,168
KB-KDBC New Technology Business Investment Fund	14,594	5,000	—	—	(606)	—	—	18,988
KB Star office Private real estate Investment Trust No.1	19,839	—	—	—	—	—	—	19,839
PT Bank Bukopin TBK	113,932	—	—	—	(1,236)	10,408	(1,723)	121,381
Sun Surgery Center Inc.	2,715	—	(3,321)	—	396	210	—	—
Dae-A Leisure Co., Ltd.	578	—	—	—	—	—	—	578
RAND Bio Science Co., Ltd.	843	—	—	—	—	—	(843)	—
Balhae Infrastructure Company	108,050	592	—	(6,855)	(396)	—	—	101,391
Aju Good Technology Venture Fund	18,134	1,960	—	—	2,922	—	—	23,016
SY Auto Capital Co., Ltd.	10,672	—	—	—	2,158	(105)	—	12,725
Kendae Co., Ltd.	98	—	—	—	—	—	—	98
Dong Jo Co., Ltd.	115	—	—	—	—	—	—	115
Big Dipper Co., Ltd.	280	—	—	—	(155)	—	—	125
Builton Co., Ltd.	304	403	(839)	—	132	—	—	—
Shinhwa Underwear Co., Ltd.	185	—	—	—	73	—	—	258
A-PRO Co., Ltd.	1,403	—	—	—	1,386	1	—	2,790
MJT&I Co., Ltd.	122	—	—	—	(6)	—	—	116
Paycoms Co., Ltd.	103	—	—	—	(58)	—	—	45
Food Factory Co., Ltd.	928	—	—	—	72	—	—	1,000
KB No.9 Special Purpose Acquisition Company	31	—	(31)	—	—	—	—	—
KB No.10 Special Purpose Acquisition Company	20	—	(20)	—	—	—	—	—
KB No.11 Special Purpose Acquisition Company	19	—	(19)	—	—	—	—	—
KB No.17 Special Purpose Acquisition Company	—	1	—	—	—	—	—	1
KB No.18 Special Purpose Acquisition Company	—	2	—	—	—	1	—	3
KB No.19 Special Purpose Acquisition Company	—	1	—	—	—	1	—	2
KB No.20 Special Purpose Acquisition Company	—	1	—	—	—	—	—	1
KBSP Private Equity Fund IV	—	6,100	—	—	(196)	—	—	5,904
KB Private Equity Fund III	7,830	—	—	—	(76)	—	—	7,754
Korea Credit Bureau Co., Ltd.	5,941	—	—	(135)	185	—	—	5,991
KoFC KBIC Frontier Champ 2010-5(PEF)	233	—	(233)	—	—	—	—	—
KoFC POSCO HANHWA KB shared growth Private Equity Fund No. 2	14,601	—	—	—	(985)	—	—	13,616
Keystone-Hyundai Securities No. 1 Private Equity Fund	1,581	66	—	—	(26)	4	—	1,625
KB Social Impact Fund	—	1,500	—	—	(35)	—	—	1,465
KB-Solidus Global Healthcare Fund3	—	42,697	—	—	3,021	—	—	45,718
POSCO-KB Shipbuilding Fund	4,463	2,500	—	—	(116)	—	—	6,847
GH Real Estate I LP	17,252	—	—	—	1,553	237	—	19,042
KB-TS Technology Venture Private Equity Fund	13,777	7,440	(1,840)	—	269	85	—	19,731
KB-Brain KOSDAQ Scale-up New Technology Business Investment Fund	7,930	13,250	—	—	(1,428)	—	—	19,752
KB-SJ Tourism Venture Fund	1,386	1,500	—	—	(125)	—	—	2,761
UNION Media Commerce Fund	962	—	—	—	(1)	—	—	961
KB-Stonebridge Secondary Private Equity Fund	—	7,070	(1,855)	—	(271)	—	—	4,944
KB SPROTT Renewable Private Equity Fund No.1	—	1,667	—	—	(372)	—	—	1,295
KB-UTC Inno-Tech Venture Fund	—	450	—	—	(33)	—	—	417
IMT TECHNOLOGY CO., LTD.	—	—	—	—	3	—	—	3
COMPUTERLIFE CO., LTD.	—	—	—	—	69	—	—	69
Total	₩ 504,932	₩ 92,200	₩ (8,475)	₩ (16,287)	₩ 17,594	₩ 10,842	₩ (2,566)	₩ 598,240

¹ Gain on disposal of investments in associates and joint ventures for the year ended December 31, 2019 is ₩ 1,423 million.

Accumulated unrecognized share of losses in investments in associates and joint ventures due to discontinuation of applying the equity method for the years ended December 31, 2018 and 2019, are as follows:

	2018		2019	
	Unrecognized loss	Accumulated unrecognized loss	Unrecognized loss	Accumulated unrecognized loss
	(In millions of Korean won)			
Doosung Metal Co., Ltd	₩ (4)	₩ 19	₩ 46	₩ 65
Incheon Bridge Co., Ltd.	487	16,689	(1,943)	14,746
Jungdong Steel Co., Ltd.	—	489	—	489
Dpaps Co., Ltd.	141	325	14	339
Shinla Construction Co., Ltd.	—	183	—	183
Jaeyang Industry Co., Ltd.	30	30	—	30
Terra Co., Ltd.	14	14	—	14
Jungdo Co., Ltd.	161	161	—	161
Jinseung Tech Co., Ltd.	3	3	18	21
Korea NM Tech Co., Ltd.	28	28	—	28
Chong il Machine & Tools Co., Ltd.	—	—	19	19
Skydigital Inc.	—	—	106	106

14. Property and Equipment, and Investment Properties

Details of property and equipment as of December 31, 2018 and 2019, are as follows:

	2018			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
	(In millions of Korean won)			
Land	₩2,433,059	₩ —	₩ (1,018)	₩2,432,041
Buildings	2,043,459	(707,389)	(5,859)	1,330,211
Leasehold improvements	878,078	(750,442)	—	127,636
Equipment and vehicles	1,729,223	(1,448,599)	—	280,624
Construction in progress	88,618	—	—	88,618
Financial lease assets	44,429	(31,432)	—	12,997
Total	₩7,216,866	₩(2,937,862)	₩ (6,877)	₩4,272,127

	2019			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
	(In millions of Korean won)			
Land	₩2,431,812	₩ —	₩ (1,018)	₩2,430,794
Buildings	2,265,929	(757,147)	(5,859)	1,502,923
Leasehold improvements	865,531	(749,407)	—	116,124
Equipment and vehicles	1,867,739	(1,487,386)	—	380,353
Construction in progress	86,303	—	—	86,303
Right-of-use assets	854,327	(302,269)	(1,178)	550,880
Total	₩8,371,641	₩(3,296,209)	₩ (8,055)	₩5,067,377

The changes in property and equipment for the years ended December 31, 2018 and 2019, are as follows:

2018								
	Beginning	Acquisition	Transfers ¹	Disposal	Depreciation ²	Business combination	Others	Ending
(In millions of Korean won)								
Land	₩2,474,354	₩ 247	₩ (41,888)	₩ (691)	₩ —	₩ —	₩ 19	₩2,432,041
Buildings	1,371,153	3,738	9,683	(4,528)	(51,881)	—	2,046	1,330,211
Leasehold improvement	89,729	28,922	70,221	(633)	(71,931)	—	11,328	127,636
Equipment and vehicles	243,205	182,868	242	(1,026)	(144,791)	121	5	280,624
Construction in-progress	14,808	236,495	(161,330)	—	—	644	(1,999)	88,618
Financial lease assets	8,448	9,640	—	—	(5,091)	—	—	12,997
Total	<u>₩4,201,697</u>	<u>₩461,910</u>	<u>₩(123,072)</u>	<u>₩(6,878)</u>	<u>₩ (273,694)</u>	<u>₩ 765</u>	<u>₩11,399</u>	<u>₩4,272,127</u>
2019								
	Beginning	Acquisition	Transfers ¹	Disposal	Depreciation ²	Business combination	Others	Ending
(In millions of Korean won)								
Land	₩2,432,041	₩ 7,334	₩ (3,957)	₩ (4,907)	₩ —	₩ —	₩ 283	₩2,430,794
Buildings	1,330,211	10,908	220,535	(9,964)	(55,669)	—	6,902	1,502,923
Leasehold improvement ³	122,309	13,398	58,645	(338)	(77,948)	—	58	116,124
Equipment and vehicles	280,624	283,896	(4)	(526)	(183,900)	—	263	380,353
Construction in-progress	88,618	293,204	(288,136)	—	—	—	(7,383)	86,303
Right-of-use assets ³ ..	589,188	379,934	19	(153,034)	(281,404)	—	16,177	550,880
Total	<u>₩4,842,991</u>	<u>₩988,674</u>	<u>₩ (12,898)</u>	<u>₩(168,769)</u>	<u>₩ (598,921)</u>	<u>₩ —</u>	<u>₩16,300</u>	<u>₩5,067,377</u>

¹ Including transfers with investment property and assets held for sale.

² Including depreciation cost and others amounting to ₩ 128 million and ₩ 111 million recorded in other operating expenses in the statements of comprehensive income for the years ended December 31, 2018 and 2019, respectively.

³ Beginning balances of leasehold improvement and right-of-use assets are based on IFRS 16.

The changes in accumulated impairment losses of property and equipment for the years ended December 31, 2018 and 2019, are as follows:

2018						
	Beginning	Impairment	Reversal	Business combination	Disposal and others	Ending
(In millions of Korean won)						
Accumulated impairment losses on property and equipment	₩(6,877)	₩ —	₩ —	₩ —	₩ —	₩(6,877)

	2019					
	Beginning	Impairment	Reversal	Business combination	Disposal and others	Ending
	(In millions of Korean won)					
Accumulated impairment losses on property and equipment (excluding Right-of use assets)	₩(6,877)	₩ —	₩ —	₩ —	₩ —	₩(6,877)
Accumulated impairment losses on Right-of-use assets	—	(1,178)	—	—	—	(1,178)
Total	₩(6,877)	₩ (1,178)	₩ —	₩ —	₩ —	₩(8,055)

Details of investment property as of December 31, 2018 and 2019, are as follows:

	2018			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
	(In millions of Korean won)			
Land	₩ 972,562	₩ —	₩ —	₩ 972,562
Buildings	1,295,668	(148,419)	—	1,147,249
Total	₩2,268,230	₩(148,419)	₩ —	₩2,119,811

	2019			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
	(In millions of Korean won)			
Land	₩1,537,240	₩ —	₩ —	₩1,537,240
Buildings	1,463,736	(172,988)	—	1,290,748
Total	₩3,000,976	₩(172,988)	₩ —	₩2,827,988

The valuation technique and input variables that are used to measure the fair value of investment property as of December 31, 2019, are as follows:

	2019		
	Fair value (In millions of Korean won)	Valuation technique	Inputs
Land and buildings	₩ 33,594	Cost Approach Method	- Price per square meter - Replacement cost
	1,000,227	Market comparison method	- Price per square meter
	1,602,772	Cash flow approach	- Prospective rental market growth rate - Period of vacancy - Rental rate - Discount rate and others
	396,133	Income approach	- Discount rate - Capitalization rate - Vacancy rate

As of December 31, 2018 and 2019, fair values of the investment properties amount to ₩ 2,287,012 million and ₩ 3,032,726 million, respectively. The investment properties were measured by qualified independent appraisers with experience in valuing similar properties in the same area. In addition, per the fair value hierarchy on Note 6.1, the fair value hierarchy of all investment properties has been categorized and classified as Level 3.

Rental income from the above investment properties for the years ended December 31, 2018 and 2019, amounts to ₩ 87,513 million and ₩ 129,944 million, respectively.

The changes in investment property for the years ended December 31, 2018 and 2019, are as follows:

	2018						Ending
	Beginning	Acquisition	Transfers	Disposal	Depreciation	Others	
	(In millions of Korean won)						
Land	₩251,496	₩ 714,454	₩ 66,086	₩ (57,384)	₩ —	₩(2,090)	₩ 972,562
Buildings	596,985	573,671	44,622	(50,872)	(26,092)	8,935	1,147,249
Total	<u>₩848,481</u>	<u>₩1,288,125</u>	<u>₩110,708</u>	<u>₩(108,256)</u>	<u>₩ (26,092)</u>	<u>₩ 6,845</u>	<u>₩2,119,811</u>

	2019						Ending
	Beginning	Acquisition	Transfers	Disposal	Depreciation	Others	
	(In millions of Korean won)						
Land	₩ 972,562	₩580,255	₩ (3,374)	₩(13,318)	₩ —	₩ 1,115	₩1,537,240
Buildings	1,147,249	225,833	(8,861)	(50,780)	(36,877)	14,184	1,290,748
Total	<u>₩2,119,811</u>	<u>₩806,088</u>	<u>₩(12,235)</u>	<u>₩(64,098)</u>	<u>₩ (36,877)</u>	<u>₩15,299</u>	<u>₩2,827,988</u>

15. Intangible Assets

Details of intangible assets as of December 31, 2018 and 2019, are as follows:

	2018				
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Others	Carrying Amount
	(In millions of Korean won)				
Goodwill	₩ 346,314	₩ —	₩ (70,517)	₩(577)	₩ 275,220
Other intangible assets	4,140,355	(1,614,775)	(45,017)	—	2,480,563
Total	<u>₩4,486,669</u>	<u>₩(1,614,775)</u>	<u>₩(115,534)</u>	<u>₩(577)</u>	<u>₩2,755,783</u>

	2019				
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Others	Carrying Amount
	(In millions of Korean won)				
Goodwill	₩ 346,314	₩ —	₩ (70,517)	₩(56)	₩ 275,741
Other intangible assets	4,420,371	(1,926,647)	(31,652)	—	2,462,072
Total	<u>₩4,766,685</u>	<u>₩(1,926,647)</u>	<u>₩(102,169)</u>	<u>₩(56)</u>	<u>₩2,737,813</u>

Details of goodwill as of December 31, 2018 and 2019, are as follows:

	2018		2019	
	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount
	(In millions of Korean won)			
Housing & Commercial Bank	₩ 65,288	₩ 65,288	₩ 65,288	₩ 65,288
KB Cambodia Bank	1,202	—	1,202	—
KB Securities Co., Ltd. ¹	70,265	58,889	70,265	58,889
KB Capital Co., Ltd.	79,609	79,609	79,609	79,609
KB Savings Bank Co., Ltd.	115,343	57,404	115,343	57,404
KB Securities Vietnam Joint Stock Company ²	13,092	12,520	13,092	12,987
KB Daehan Specialized Bank PLC.	1,515	1,510	1,515	1,564
Total	₩346,314	₩275,220	₩346,314	₩275,741

¹ The amount occurred from formerly known as KB Investment & Securities Co., Ltd.

² MARITIME SECURITIES INCORPORATION changed its name to KB Securities Vietnam joint stock company.

The changes in accumulated impairment losses of goodwill for the years ended December 31, 2018 and 2019, are as follows:

2018				
Beginning	Impairment	Others	Ending	
(In millions of Korean won)				
₩ (70,517)	₩ —	₩ —	₩ (70,517)	
2019				
Beginning	Impairment	Others	Ending	
(In millions of Korean won)				
₩ (70,517)	₩ —	₩ —	₩ (70,517)	

The details of allocated goodwill to cash-generating units and related information for impairment testing as of December 31, 2019, are as follows:

	2019							
	Housing & Commercial Bank		KB		KB Savings Bank Co., Ltd. KB Securities and Yehansoul Vietnam		KB DAEHAN SPECIALIZED BANK PLC.	
	Retail Banking	Corporate Banking	Securities Co., Ltd. ¹	KB Capital Co., Ltd.	Savings Bank Co., Ltd.	Joint Stock Company ²		
Carrying amounts	₩ 49,315	₩ 15,973	₩ 58,889	₩ 79,609	₩ 57,404	₩ 12,987	₩ 1,564	₩ 275,741
Recoverable amount exceeded carrying amount	3,424,398	3,142,439	663,842	1,713,855	481,609	9,077	11,772	9,446,992
Discount rate (%)	13.02	13.09	17.25	11.54	8.29	19.95	19.55	
Permanent growth rate (%)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	

¹ The amount occurred from formerly known as KB Investment&Securities Co., Ltd.

² MARITIME SECURITIES INCORPORATION changed its name to KB Securities Vietnam joint stock company.

Goodwill is allocated to cash-generating units, based on management's analysis, that are expected to benefit from the synergies of the combination for impairment testing, and cash-generating units consist of an operating segment or units which are not larger than an operating segment. The Group recognized the amount of ₩ 65,288 million related to goodwill acquired in the merger of Housing & Commercial Bank. Of those respective amounts, the amounts of ₩ 49,315 million and ₩ 15,973 million were allocated to the Retail Banking and Corporate Banking, respectively. Cash-generating units to which goodwill has been allocated is tested for

impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit.

The recoverable amount of a cash-generating unit is measured at the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. If it is difficult to measure the amount obtainable from the sale, the Group measures the fair value less costs to sell by reflecting the characteristics of the measured cash-generating unit. If it is not possible to obtain reliable information to measure the fair value less costs to sell, the Group uses the asset's value in use as its recoverable amount. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The projections of the future cash flows are based on the most recent financial budget approved by management and generally cover a period of five years. The future cash flows after projection period are estimated on the assumption that the future cash flows will increase by 1.0% for all other cash-generating units. The key assumptions used for the estimation of the future cash flows are the market size and the Group's market share. The discount rate is a pre-tax rate that reflects assumptions regarding risk-free interest rate, market risk premium and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Details of intangible assets, excluding goodwill, as of December 31, 2018 and 2019, are as follows:

	2018			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
	(In millions of Korean won)			
Industrial property rights	₩ 9,248	₩ (2,661)	₩ (2,090)	₩ 4,497
Software	1,169,549	(965,044)	—	204,505
Other intangible assets	515,041	(223,503)	(42,927)	248,611
Value of Business Acquired (VOBA)	2,395,291	(393,346)	—	2,001,945
Finance leases assets	51,226	(30,221)	—	21,005
Total	<u>₩4,140,355</u>	<u>₩(1,614,775)</u>	<u>₩ (45,017)</u>	<u>₩2,480,563</u>
	2019			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
	(In millions of Korean won)			
Industrial property rights	₩ 5,802	₩ (2,930)	₩ (19)	₩ 2,853
Software	1,428,655	(1,055,136)	—	373,519
Other intangible assets	555,424	(257,274)	(31,633)	266,517
Value of Business Acquired (VOBA)	2,395,290	(585,805)	—	1,809,485
Right-of-use assets	35,200	(25,502)	—	9,698
Total	<u>₩4,420,371</u>	<u>₩(1,926,647)</u>	<u>₩ (31,652)</u>	<u>₩2,462,072</u>

The changes in intangible assets, excluding goodwill, for the years ended December 31, 2018 and 2019, are as follows:

	2018						
	Beginning	Acquisition & Transfer	Disposal	Amortization ¹	Business combination	Others	Ending
	(In millions of Korean won)						
Industrial property rights	₩ 7,098	₩ 1,329	₩ (1,200)	₩ (639)	₩ —	₩ (2,091)	₩ 4,497
Software	177,566	103,398	(6)	(76,280)	17	(190)	204,505
Other intangible assets ²	247,479	36,014	(10,290)	(24,388)	—	(204)	248,611
Value of Business							
Acquired (VOBA)	2,216,098	—	—	(214,153)	—	—	2,001,945
Finance leases assets	21,369	8,024	—	(8,388)	—	—	21,005
Total	<u>₩2,669,610</u>	<u>₩ 148,765</u>	<u>₩(11,496)</u>	<u>₩ (323,848)</u>	<u>₩ 17</u>	<u>₩(2,485)</u>	<u>₩2,480,563</u>
	2019						
	Beginning	Acquisition & Transfer	Disposal	Amortization ¹	Business combination	Others	Ending
	(In millions of Korean won)						
Industrial property rights	₩ 4,497	₩ 174	₩ (1,160)	₩ (658)	₩ —	₩ —	₩ 2,853
Software	204,505	274,583	—	(105,228)	—	(341)	373,519
Other intangible assets ²	248,611	59,776	(13,534)	(33,590)	—	5,254	266,517
Value of Business							
Acquired (VOBA)	2,001,945	—	—	(192,460)	—	—	1,809,485
Right-of-use assets	21,063	1,010	—	(9,893)	—	(2,482)	9,698
Total	<u>₩2,480,621</u>	<u>₩ 335,543</u>	<u>₩(14,694)</u>	<u>₩ (341,829)</u>	<u>₩ —</u>	<u>₩ 2,431</u>	<u>₩2,462,072</u>

¹ Including ₩ 214,735 million and ₩ 193,085 million recorded in insurance expenses and other operating expenses and others in the statements of comprehensive income for the years ended December 31, 2018 and 2019.

² Impairment loss for membership right of other intangible asset with indefinite useful life was recognized when its recoverable amount is lower than its carrying amount, and reversal of impairment loss was recognized when its recoverable amount is higher than its carrying amount.

The changes in accumulated impairment losses on intangible assets for the years ended December 31, 2018 and 2019, are as follows:

	2018				
	Beginning	Impairment	Reversal	Disposal and others	Ending
	(In millions of Korean won)				
Accumulated impairment losses on intangible assets	₩(43,074)	₩ (5,846)	₩3,475	₩ 428	₩(45,017)
	2019				
	Beginning	Impairment	Reversal	Disposal and others	Ending
	(In millions of Korean won)				
Accumulated impairment losses on intangible assets	₩(45,017)	₩ (1,578)	₩6,859	₩ 8,084	₩(31,652)

16. Deferred Income Tax Assets and Liabilities

Details of deferred income tax assets and liabilities as of December 31, 2018 and 2019, are as follows:

	2018		
	Assets	Liabilities	Net amount
	(In millions of Korean won)		
Other provisions	₩ 109,721	₩ —	₩ 109,721
Allowances for loan losses	3,327	(65)	3,262
Impairment losses on property and equipment	6,030	(2,032)	3,998
Share-based payments	17,655	—	17,655
Provisions for guarantees	20,298	—	20,298
Losses (gains) from valuation on derivative financial instruments	138,401	(13,485)	124,916
Present value discount	6,763	(2,380)	4,383
Losses (gains) from fair value hedged item	—	(25,873)	(25,873)
Accrued interest	—	(113,152)	(113,152)
Deferred loan origination fees and costs	506	(194,848)	(194,342)
Advanced depreciation provision	—	(1,703)	(1,703)
Gains from revaluation	648	(330,548)	(329,900)
Investments in subsidiaries and others	33,589	(78,586)	(44,997)
Losses (gains) on valuation of security investment	76,558	(181,638)	(105,080)
Defined benefit liabilities	494,572	—	494,572
Accrued expenses	272,190	—	272,190
Retirement insurance expense	17,559	(444,244)	(426,685)
Adjustments to the prepaid contributions	—	(19,033)	(19,033)
Derivative-linked securities	3,762	(74,765)	(71,003)
Others	360,754	(568,357)	(207,603)
Sub-total	1,562,333	(2,050,709)	(488,376)
Offsetting of deferred income tax assets and liabilities	(1,558,175)	1,558,175	—
Total	₩ 4,158	₩ (492,534)	₩(488,376)

	2019		
	Assets	Liabilities	Net amount
	(In millions of Korean won)		
Other provisions	₩ 115,500	₩ —	₩ 115,500
Allowances for loan losses	451	(3,266)	(2,815)
Impairment losses on property and equipment	4,396	(1,952)	2,444
Share-based payments	18,002	—	18,002
Provisions for guarantees	20,959	—	20,959
Losses (gains) from valuation on derivative financial instruments . .	51,160	(158,604)	(107,444)
Present value discount	8,244	(4,201)	4,043
Losses (gains) from fair value hedged item	12,123	—	12,123
Accrued interest	—	(110,359)	(110,359)
Deferred loan origination fees and costs	531	(199,000)	(198,469)
Advanced depreciation provision	—	(1,703)	(1,703)
Gains from revaluation	549	(329,331)	(328,782)
Investments in subsidiaries and others	35,306	(105,470)	(70,164)
Losses (gains) on valuation of security investment	39,949	(265,934)	(225,985)
Defined benefit liabilities	557,423	—	557,423
Accrued expenses	249,999	—	249,999
Retirement insurance expense	—	(489,602)	(489,602)
Adjustments to the prepaid contributions	—	(22,897)	(22,897)
Derivative-linked securities	131,259	(34,635)	96,624
Others	469,336	(762,429)	(293,093)
Sub-total	<u>1,715,187</u>	<u>(2,489,383)</u>	<u>(774,196)</u>
Offsetting of deferred income tax assets and liabilities	<u>(1,711,590)</u>	<u>1,711,590</u>	<u>—</u>
Total	<u>₩ 3,597</u>	<u>₩ (777,793)</u>	<u>₩(774,196)</u>

Unrecognized deferred income tax assets

No deferred income tax assets have been recognized for the deductible temporary difference of ₩67,645 million associated with investments in subsidiaries and others as of December 31, 2019, because it is not probable that the temporary differences will be reversed in the foreseeable future.

No deferred income tax assets have been recognized for deductible temporary differences of ₩125,158 million with others, as of December 31, 2019, due to the uncertainty that these will be realized in the future.

Unrecognized deferred income tax liabilities

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩68,836 million associated with investment in subsidiaries and associates as of December 31, 2019, due to the following reasons:

- The Group is able to control the timing of the reversal of the temporary difference.
- It is probable that the temporary difference will not be reversed in the foreseeable future.

No deferred income tax liabilities have been recognized as of December 31, 2019, for the taxable temporary difference of ₩65,288 million arising from the initial recognition of goodwill from the merger of Housing and Commercial Bank in 2001.

The changes in cumulative temporary differences for the years ended December 31, 2018 and 2019, are as follows:

	2018			
	Beginning ¹	Decrease	Increase	Ending
	(In millions of Korean won)			
Deductible temporary differences				
Other provisions	₩ 441,088	₩ 440,865	₩ 411,680	₩ 411,903
Allowances for loan losses	546,506	542,139	8,114	12,481
Impairment losses on property and equipment	20,415	19,678	21,190	21,927
Deferred loan origination fees and costs	1,207	1,207	1,841	1,841
Interest on equity index-linked deposits	155	155	—	—
Share-based payments	84,502	74,429	49,998	60,071
Provisions for guarantees	98,294	98,294	73,809	73,809
Gains(losses) from valuation on derivative financial instruments	23,162	23,162	503,277	503,277
Present value discount	104,117	104,116	24,592	24,593
Loss on SPE repurchase	80,204	80,204	—	—
Investments in subsidiaries and others	137,591	26,748	74,027	184,870
Gains on valuation of security investment	415,392	412,284	266,623	269,731
Defined benefit liabilities	1,682,234	211,994	507,190	1,977,430
Accrued expenses	706,535	706,535	993,906	993,906
Derivative linked securities	101,789	101,789	13,679	13,679
Others	1,189,756	517,189	616,755	1,289,322
Sub-total	5,632,947	3,360,788	3,566,681	5,838,840
Unrecognized deferred income tax assets:				
Other provisions	2,879			3,416
Loss on SPE repurchase	80,204			—
Investments in subsidiaries and others	55,546			73,764
Others	112,030			120,704
Total	5,382,288			5,640,956
Tax rate (%)	27.5			27.5
Total deferred income tax assets from deductible temporary differences	₩ 1,487,039			₩ 1,562,333
Taxable temporary differences				
Losses(gains) from fair value hedged item	₩ (57,083)	₩ (57,083)	₩ (94,085)	₩ (94,085)
Accrued interest	(405,542)	(364,518)	(370,463)	(411,487)
Allowances for loan losses	—	—	(238)	(238)
Impairment losses on property and equipment	(1,481)	—	(2,976)	(4,457)
Deferred loan origination fees and costs	(668,657)	(668,657)	(727,528)	(727,528)
Advanced depreciation provision	(6,192)	—	—	(6,192)
Gains(losses) from valuation on derivative financial instruments	(38,051)	(38,051)	(49,036)	(49,036)
Present value discount	(11,948)	(11,948)	(8,656)	(8,656)
Goodwill	(65,288)	—	—	(65,288)
Gains on revaluation	(1,275,641)	(124,407)	(50,758)	(1,201,992)
Investments in subsidiaries and others	(387,733)	(146,234)	(74,847)	(316,346)
Gains on valuation of security investment	(800,041)	(799,187)	(600,642)	(601,496)
Retirement insurance expense	(1,342,012)	(136,444)	(405,907)	(1,611,475)
Adjustments to the prepaid contributions	(59,040)	(59,040)	(69,212)	(69,212)
Derivative linked securities	(20,650)	(20,650)	(271,873)	(271,873)
Others	(1,695,063)	(1,261,852)	(1,664,205)	(2,097,416)
Sub-total	₩(6,834,422)	₩(3,688,071)	₩(4,390,426)	₩(7,536,777)
Unrecognized deferred income tax assets:				
Goodwill	(65,288)			(65,288)
Investments in subsidiaries and others	(17,205)			(62,367)
Others	(906)			(588)
Total	(6,751,023)			(7,408,534)
Tax rate (%)	27.5			27.5
Total deferred income tax assets from deductible temporary differences	₩(1,861,070)			₩(2,050,709)

2019

	Beginning ¹	Decrease	Increase	Ending
	(In millions of Korean won)			
Deductible temporary differences				
Losses(gains) from fair value hedged item	₩ —	₩ —	₩ 44,085	₩ 44,085
Other provisions	411,903	411,747	424,227	424,383
Allowances for loan losses	12,481	16,160	5,697	2,018
Impairment losses on property and equipment	21,927	21,402	15,460	15,985
Deferred loan origination fees and costs	1,841	1,841	1,930	1,930
Share-based payments	60,071	52,475	55,496	63,092
Provisions for guarantees	73,809	73,809	76,214	76,214
Gains(losses) from valuation on derivative financial instruments	503,277	503,277	186,035	186,035
Present value discount	24,593	24,347	29,732	29,978
Investments in subsidiaries and others	184,870	47,217	47,727	185,380
Gains on valuation of security investment	269,731	264,318	130,823	136,236
Defined benefit liabilities	1,977,430	200,827	384,616	2,161,219
Accrued expenses	993,906	994,326	912,019	911,599
Derivative linked securities	13,679	13,679	477,307	477,307
Others	1,289,322	600,007	978,968	1,668,283
Sub-total	5,838,840	3,225,432	3,770,336	6,383,744
Unrecognized deferred income tax assets:				
Other provisions	3,416			4,788
Investments in subsidiaries and others	73,764			67,645
Others	120,704			125,158
Total	5,640,956			6,186,153
Tax rate (%)	27.5			27.5
Total deferred income tax assets from deductible temporary differences	₩ 1,562,333			₩ 1,715,187
Taxable temporary differences				
Losses(gains) from fair value hedged item	₩ (94,085)	₩ (94,085)	₩ —	₩ —
Accrued interest	(411,487)	(362,627)	(352,477)	(401,337)
Allowances for loan losses	(238)	(238)	(11,877)	(11,877)
Impairment losses on property and equipment	(4,457)	(212)	82	(4,163)
Deferred loan origination fees and costs	(727,528)	(727,528)	(752,178)	(752,178)
Advanced depreciation provision	(6,192)	—	—	(6,192)
Gains(losses) from valuation on derivative financial instruments	(49,036)	(49,036)	(576,743)	(576,743)
Present value discount	(8,656)	(8,656)	(15,278)	(15,278)
Goodwill	(65,288)	—	—	(65,288)
Gains on revaluation	(1,201,992)	(52,470)	(48,044)	(1,197,566)
Investments in subsidiaries and others	(316,346)	(19,421)	(122,130)	(419,055)
Gains on valuation of security investment	(601,496)	(594,206)	(899,500)	(906,790)
Retirement insurance expense	(1,611,475)	(153,528)	(317,793)	(1,775,740)
Adjustments to the prepaid contributions	(69,212)	(69,212)	(83,262)	(83,262)
Derivative linked securities	(271,873)	(271,873)	(125,947)	(125,947)
Others	(2,097,416)	(2,916,575)	(3,612,265)	(2,793,106)
Sub-total	₩ (7,536,777)	₩ (5,319,667)	₩ (6,917,412)	₩ (9,134,522)
Unrecognized deferred income tax assets:				
Goodwill	(65,288)			(65,288)
Investments in subsidiaries and others	(62,367)			(68,836)
Others	(588)			(1,247)
Total	(7,408,534)			(8,999,151)
Tax rate (%)	27.5			27.5
Total deferred income tax assets from deductible temporary differences	₩ (2,050,709)			₩ (2,489,383)

¹ Prepared in accordance with IFRS 9.

17. Assets Held for Sale

Details of assets held for sale as of December 31, 2018 and 2019, are as follows:

	2018			
	Acquisition cost ¹	Accumulated impairment	Carrying amount	Fair value less costs to sell
	(In millions of Korean won)			
Land held for sale	₩ 16,048	₩ (3,442)	₩ 12,606	₩ 16,552
Buildings held for sale	9,054	(4,708)	4,346	4,403
Total	₩ 25,102	₩ (8,150)	₩ 16,952	₩ 20,955

	2019			
	Acquisition cost ¹	Accumulated impairment	Carrying amount	Fair value less costs to sell
	(In millions of Korean won)			
Land held for sale	₩ 14,542	₩ (1,530)	₩ 13,012	₩ 14,374
Buildings held for sale	11,391	(1,252)	10,139	12,396
Total	₩ 25,933	₩ (2,782)	₩ 23,151	₩ 26,770

¹ Acquisition cost of buildings held for sale is net of accumulated depreciation.

The valuation technique and input variables that are used to measure the fair value of assets held for sale as of December 31, 2019, are as follows:

	2019				
	Fair value	Valuation technique ¹	Unobservable input ²	Range of unobservable inputs (%)	Relationship of unobservable inputs to fair value
	(In millions of Korean won)				
Land and buildings	₩26,770	Market comparison approach model and others	Adjustment index	0.44 ~1.40	Fair value increases as the adjustment index rises.

¹ The Group adjusted the appraisal value by the adjustment ratio in the event the public sale is unsuccessful.

² Adjustment index is calculated using the real estate index or the producer price index, or land price volatility.

The fair values of assets held for sale were measured by qualified independent appraisers with experience in valuing similar properties in the same area. In addition, per the fair value hierarchy on Note 6.1, the fair value hierarchy of all investment properties has been categorized and classified as Level 3.

The changes in accumulated impairment losses of assets held for sale for the years ended December 31, 2018 and 2019, are as follows:

	2018				
	Beginning	Provision	Reversal	Disposal and others	Ending
	(In millions of Korean won)				
₩	(12,801)	₩ (5,281)	₩ 286	₩ 9,646	₩ (8,150)

	2019				
	Beginning	Provision	Reversal	Others	Ending
	(In millions of Korean won)				
₩	(8,150)	₩ (333)	₩ —	₩ 5,701	₩ (2,782)

As of December 31, 2019, assets held for sale consist of four real estates of closed offices, which were committed to sell by the management, but not yet sold as of December 31, 2019. Negotiation with buyers is in process for the one asset and the remaining three assets are also being actively marketed.

18. Other Assets

Details of other assets as of December 31, 2018 and 2019, are as follows:

	2018	2019
	(In millions of Korean won)	
Other financial assets		
Other receivables	₩ 4,708,910	₩ 5,792,814
Accrued income	1,724,328	1,659,182
Guarantee deposits	1,182,686	1,146,000
Domestic exchange settlement debits	504,899	531,356
Others	125,380	129,039
Allowances	(106,275)	(104,629)
Present value discount	(6,372)	(6,703)
Sub-total	<u>8,133,556</u>	<u>9,147,059</u>
Other non-financial assets		
Other receivables	4,965	1,294
Prepaid expenses	205,394	198,893
Guarantee deposits	4,529	4,084
Insurance assets	1,362,877	1,662,016
Separate account assets	4,715,414	5,052,804
Others	1,347,580	2,173,693
Allowances	(24,780)	(24,235)
Sub-total	<u>7,615,979</u>	<u>9,068,549</u>
Total	<u>₩15,749,535</u>	<u>₩18,215,608</u>

Changes in allowances for loan losses on other assets for the years ended December 31, 2018 and 2019, are as follows:

	2018		
	Other financial assets	Other non-financial assets	Total
	(In millions of Korean won)		
Beginning ¹	₩ 109,899	₩ 32,018	₩141,917
Written-off	(38,184)	(1,863)	(40,047)
Provision(reversal)	32,495	(5,375)	27,120
Others	2,065	—	2,065
Ending	<u>₩ 106,275</u>	<u>₩ 24,780</u>	<u>₩131,055</u>
	2019		
	Other financial assets	Other non-financial assets	Total
	(In millions of Korean won)		
Beginning	₩ 106,275	₩ 24,780	₩131,055
Written-off	(5,883)	(152)	(6,035)
Provision(reversal)	9,885	(393)	9,492
Others	(5,648)	—	(5,648)
Ending	<u>₩ 104,629</u>	<u>₩ 24,235</u>	<u>₩128,864</u>

¹ Prepared in accordance with IFRS 9.

19. Financial Liabilities at Fair Value through Profit or Loss

Details of financial liabilities at fair value through profit or loss, and financial liabilities designated at fair value through profit or loss as of December 31, 2018 and 2019, are as follows:

	2018	
	(In millions of Korean won)	
Financial liabilities held for trading		
Securities sold	₩	2,745,906
Other		77,914
Sub-total	₩	2,823,820
Financial liabilities designated at fair value through profit or loss		
Derivative-linked securities		12,503,039
Total financial liabilities at fair value through profit or loss	₩	15,326,859
	2019	
	(In millions of Korean won)	
Financial liabilities at fair value through profit or loss		
Securities sold	₩	2,583,092
Other		80,235
Sub-total		2,663,327
Financial liabilities designated at fair value through profit or loss		
Derivative-linked securities		12,704,826
Total financial liabilities at fair value through profit or loss	₩	15,368,153

The difference between the carrying amount and contractual cash flow amount of financial liabilities designated at fair value through profit or loss as of December 31, 2018 and 2019 are as follows:

	2018	2019
	(In millions of Korean won)	
Contractual cash flow amount	₩12,329,525	₩12,515,734
Carrying amount	12,503,039	12,704,826
Difference	₩(173,514)	₩ (189,092)

20. Deposits

Details of deposits as of December 31, 2018 and 2019, are as follows:

	2018	2019
	(In millions of Korean won)	
Demand deposits		
Demand deposits in Korean won	₩115,602,691	₩127,790,349
Demand deposits in foreign currencies	6,887,280	8,550,068
Total demand deposits	122,489,971	136,340,417
Time deposits		
Time deposits in Korean won	145,336,136	157,653,603
Time deposits in foreign currencies	5,501,887	7,377,173
Fair value adjustments on valuation of fair value hedged items	(89,264)	(18,391)
Total time deposits	150,748,759	165,012,385
Certificates of deposits	3,531,719	4,239,969
Total deposits	₩276,770,449	₩305,592,771

21. Debts

Details of debts as of December 31, 2018 and 2019, are as follows:

	2018	2019
	(In millions of Korean won)	
Borrowings	₩19,969,328	₩24,370,567
Repurchase agreements and others	11,954,491	13,015,506
Call money	1,081,015	432,787
Total	<u>₩33,004,834</u>	<u>₩37,818,860</u>

Details of borrowings as of December 31, 2018 and 2019, are as follows:

		Lender	Annual interest rate (%)	2018	2019	
		(In millions of Korean won)				
Borrowings in Korean won	Borrowings from the Bank of Korea	Bank of Korea	0.50~0.75	₩ 1,672,714	₩ 2,649,851	
	Borrowings from the government	SEMAS and others	0.00~3.00	1,745,940	1,658,810	
	Borrowings from banks	Shinhan Bank and others	1.71~3.25	100,100	116,160	
	Borrowings from non-banking financial institutions	The Korea Securities Financial Corporation and others	0.20~3.80	1,852,953	1,982,242	
	Other borrowings	The Korea Development Bank and others ...	0.00~4.90	5,033,768	8,022,921	
		Sub-total			<u>10,405,475</u>	<u>14,429,984</u>
Borrowings in foreign currencies	Due to banks	KEB Hana Bank and Others	—	13,353	4,682	
	Borrowings from banks	Central Bank of Uzbekistan and Others	0.00~8.50	7,521,197	8,089,368	
	Borrowings from other financial institutions	The Export-Import Bank of Korea and others	2.28~3.08	18,725	7,081	
	Other borrowings	Standard Chartered Bank and others	0.00~3.00	2,010,578	1,839,452	
		Sub-total			<u>9,563,853</u>	<u>9,940,583</u>
		Total			<u>₩19,969,328</u>	<u>₩24,370,567</u>

The details of repurchase agreements and others as of December 31, 2018 and 2019, are as follows:

	Lenders	Annual interest rate (%)	2018	2019
			(In millions of Korean won)	
Repurchase agreements	Individuals, Groups and Corporations	0.91~2.90	₩11,946,896	₩13,011,121
Bills sold	Counter sale	0.70~1.05	7,595	4,385
Total		<u>₩11,954,491</u>	<u>₩13,015,506</u>

The details of call money as of December 31, 2018 and 2019, are as follows:

	Lenders	Annual interest rate (%)	2018	2019
			(In millions of Korean won)	
Call money in Korean won	HI Asset Management and others	1.42~1.44	₩ 718,600	₩165,000
Call money in foreign currencies	Central Bank of Uzbekistan and others	2.91~4.30	362,415	267,787
Total		<u>₩1,081,015</u>	<u>₩432,787</u>

22. Debentures

Details of debentures as of December 31, 2018 and 2019, are as follows:

	Annual interest rate (%)	2018	2019 ¹
		(In millions of Korean won)	
Debentures in Korean won			
Structured debentures	1.74~5.86	₩ 1,296,860	₩ 1,458,551
Subordinated fixed rate debentures	2.96~4.35	3,437,729	3,386,590
Fixed rate debentures	1.35~3.79	42,203,545	39,171,514
Floating rate debentures	1.52~2.24	1,650,000	1,580,000
Sub-total		<u>48,588,134</u>	<u>45,596,655</u>
Fair value adjustments on fair value hedged debentures in Korean won		19,252	21,070
Less: Discount on debentures in Korean won		(33,445)	(30,029)
Sub-total		<u>48,573,941</u>	<u>45,587,696</u>
Debentures in foreign currencies			
Floating rate debentures	2.26~2.84	1,791,868	2,227,607
Fixed rate debentures	1.60~4.50	2,951,251	3,094,196
Sub-total		<u>4,743,119</u>	<u>5,321,803</u>
Fair value adjustments on fair value hedged debentures in foreign currencies		(24,073)	41,406
Less: Discount on debentures in foreign currencies		(14,290)	(15,322)
Sub-total		<u>4,704,756</u>	<u>5,347,887</u>
Total		<u>₩53,278,697</u>	<u>₩50,935,583</u>

¹ The significant benchmark interest rate indicators for the hedge relationship are LIBOR and CD rate, and the hedge accounting in Note 9 is directly affected by these amendments.

Changes in debentures based on face value for the years ended December 31, 2018 and 2019, are as follows:

	2018				
	Beginning	Issues	Repayments	Others	Ending
(In millions of Korean won)					
Debentures in Korean won					
Structured debentures	₩ 869,294	₩ 3,662,797	₩ (3,235,231)	₩ —	₩ 1,296,860
Subordinated fixed rate debentures	2,913,411	600,000	(75,682)	—	3,437,729
Fixed rate debentures	36,823,365	136,987,100	(131,606,920)	—	42,203,545
Floating rate debentures	728,000	1,160,000	(238,000)	—	1,650,000
Sub-total	<u>41,334,070</u>	<u>142,409,897</u>	<u>(135,155,833)</u>	<u>—</u>	<u>48,588,134</u>
Debentures in foreign currencies					
Floating rate debentures	1,371,392	725,638	(384,230)	79,068	1,791,868
Fixed rate debentures	2,363,486	493,022	—	94,743	2,951,251
Sub-total	<u>3,734,878</u>	<u>1,218,660</u>	<u>(384,230)</u>	<u>173,811</u>	<u>4,743,119</u>
Total	<u>₩45,068,948</u>	<u>₩143,628,557</u>	<u>₩(135,540,063)</u>	<u>₩173,811</u>	<u>₩53,331,253</u>
2019					
	Beginning	Issues	Repayments	Others	Ending
(In millions of Korean won)					
Debentures in Korean won					
Structured debentures	₩ 1,296,860	₩ 1,425,241	₩ (1,263,550)	₩ —	₩ 1,458,551
Subordinated fixed rate debentures	3,437,729	—	(51,139)	—	3,386,590
Fixed rate debentures	42,203,545	90,534,800	(93,566,831)	—	39,171,514
Floating rate debentures	1,650,000	570,000	(640,000)	—	1,580,000
Sub-total	<u>48,588,134</u>	<u>92,530,041</u>	<u>(95,521,520)</u>	<u>—</u>	<u>45,596,655</u>
Debentures in foreign currencies					
Floating rate debentures	1,791,868	532,380	(33,199)	(63,442)	2,227,607
Fixed rate debentures	2,951,251	595,490	(590,950)	138,405	3,094,196
Sub-total	<u>4,743,119</u>	<u>1,127,870</u>	<u>(624,149)</u>	<u>74,963</u>	<u>5,321,803</u>
Total	<u>₩53,331,253</u>	<u>₩93,657,911</u>	<u>₩(96,145,669)</u>	<u>₩ 74,963</u>	<u>₩50,918,458</u>

23. Provisions

Details of provisions as of December 31, 2018 and 2019, are as follows:

	2018	2019
(In millions of Korean won)		
Provisions for unused loan commitments	₩210,677	₩208,148
Provisions for payment guarantees	75,175	77,759
Provisions for financial guarantee contracts	4,275	6,063
Provisions for restoration cost	108,000	120,340
Others	127,732	115,619
Total	<u>₩525,859</u>	<u>₩527,929</u>

Changes in provisions for unused loan commitments and payment guarantees for the years ended December 31, 2018 and 2019, are as follows:

	2018					
	Provisions for unused loan commitments			Provisions for payment guarantees		
	12-month expected credit losses	Lifetime expected credit losses		12-month expected credit losses	Lifetime expected credit losses	
		Non-impaired	Impaired		Non-impaired	Impaired
(In millions of Korean won)						
Beginning ¹	₩124,487	₩ 63,407	₩ 7,746	₩ 41,637	₩ 39,628	₩18,744
Transfer between stages						
Transfer to 12-month expected credit losses	25,562	(24,067)	(1,494)	660	(661)	—
Transfer to lifetime expected credit losses (non-impaired)	(11,053)	11,381	(327)	(913)	1,055	(141)
Transfer to lifetime expected credit losses (impaired) ..	(481)	(1,333)	1,815	(6)	(87)	93
Provision (reversal) for loan losses	(5,932)	19,374	1,141	(14,702)	(10,069)	(897)
Others (change of exchange rate, etc.)	293	158	—	408	243	183
Ending	<u>₩132,876</u>	<u>₩ 68,920</u>	<u>₩ 8,881</u>	<u>₩ 27,084</u>	<u>₩ 30,109</u>	<u>₩17,982</u>
	2019					
	Provisions for unused loan commitments			Provisions for payment guarantees		
	12-month expected credit losses	Lifetime expected credit losses		12-month expected credit losses	Lifetime expected credit losses	
		Non-impaired	Impaired		Non-impaired	Impaired
	(In millions of Korean won)					
Beginning	₩132,876	₩ 68,920	₩ 8,881	₩ 27,084	₩30,109	₩17,982
Transfer between stages						
Transfer to 12-month expected credit losses	32,622	(31,408)	(1,214)	365	(365)	—
Transfer to lifetime expected credit losses (non-impaired)	(16,932)	17,195	(263)	(975)	1,705	(729)
Transfer to lifetime expected credit losses (impaired) ...	(422)	(1,516)	1,938	(24)	(280)	304
Provision (reversal) for loan losses	(21,171)	18,036	45	(1,763)	4,584	(893)
Others (change of exchange rate, etc.)	324	237	—	274	259	122
Ending	<u>₩127,297</u>	<u>₩ 71,464</u>	<u>₩ 9,387</u>	<u>₩ 24,961</u>	<u>₩36,012</u>	<u>₩16,786</u>

¹ Prepared in accordance with IFRS 9

Changes in provisions for financial guarantee contracts for the years ended December 31, 2018 and 2019, are as follows:

	2018	2019
	(In millions of Korean won)	
Beginning ¹	₩ 4,857	₩ 4,275
Provision (reversal)	(582)	1,865
Others	—	(77)
Ending	<u>₩ 4,275</u>	<u>₩ 6,063</u>

¹ The beginning balance for 2018 has been restated in accordance with IFRS 9.

Changes in provisions for restoration cost for the years ended December 31, 2018 and 2019, are as follows:

	2018	2019
	(In millions of Korean won)	
Beginning	₩ 95,194	₩108,000
Provision	7,301	7,037
Reversal	(2,055)	(7,178)
Used	(3,627)	(5,211)
Unwinding of discount	2,507	2,237
Effects of changes in discount rate	8,680	15,455
Ending	<u>₩108,000</u>	<u>₩120,340</u>

Provisions for restoration cost are the present value of estimated costs to be incurred for the restoration of the leased properties. Actual expenses are expected to be incurred at the end of each lease contract. Three-year historical data of expired leases were used to estimate the average lease period. Also, the average restoration expense based on actual three-year historical data and the three-year historical average inflation rate were used to estimate the present value of estimated costs.

Changes in other provisions for the years ended December 31, 2018 and 2019, are as follows:

	2018					
	Membership rewards program	Dormant accounts	Litigations	Greenhouse gas emission liabilities	Others ¹	Total
	(In millions of Korean won)					
Beginning	₩ 15,112	₩ 5,050	₩23,763	₩ 177	₩159,044	₩ 203,146
Increase	46,277	2,657	2,699	—	24,722	76,355
Decrease	(48,735)	(3,330)	(5,272)	(177)	(94,255)	(151,769)
Ending	<u>₩ 12,654</u>	<u>₩ 4,377</u>	<u>₩21,190</u>	<u>₩ —</u>	<u>₩ 89,511</u>	<u>₩ 127,732</u>

¹ As of December 31, 2018, the Group's provision on incomplete sales on cardssurance are ₩ 26,930 million.

	2019					
	Membership rewards program	Dormant accounts	Litigations	Greenhouse gas emission liabilities	Others ¹	Total
	(In millions of Korean won)					
Beginning	₩ 12,654	₩ 4,377	₩ 21,190	₩ —	₩ 89,511	₩ 127,732
Increase	56,758	2,378	23,863	—	38,025	121,024
Decrease	(54,743)	(3,176)	(16,363)	—	(58,855)	(133,137)
Ending	<u>₩ 14,669</u>	<u>₩ 3,579</u>	<u>₩ 28,690</u>	<u>₩ —</u>	<u>₩ 68,681</u>	<u>₩ 115,619</u>

¹ As of December 31, 2019, the Group's provision on incomplete sales on cardssurance are ₩ 2,532 million.

24. Net Defined Benefit Liabilities (Assets)

Defined benefit plan

The Group operates defined benefit plans which have the following characteristics:

- The Group has the obligation to pay the agreed benefits to all its current and former employees.
- Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the Group.

The defined benefit liability recognized in the statements of financial position is calculated by independent actuaries in accordance with actuarial valuation methods.

The net defined benefit obligation is calculated using the Projected Unit Credit method (the 'PUC'). Data used in the PUC such as interest rates, future salary increase rate, mortality rate and consumer price index are based on observable market data and historical data which are updated annually.

Actuarial assumptions may differ from actual results, due to changes in the market, economic trends and mortality trends which may impact defined benefit liabilities and future payments. Actuarial gains and losses arising from changes in actuarial assumptions are recognized in the period incurred through other comprehensive income.

Changes in the net defined benefit liabilities for the years ended December 31, 2018 and 2019, are as follows:

	2018		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities
(In millions of Korean won)			
Beginning	₩ 1,841,991	₩ (1,688,183)	₩ 153,808
Current service cost	208,470	—	208,470
Past service cost	30,218	—	30,218
Gain or loss on settlement	(1,000)	—	(1,000)
Interest cost (income)	51,522	(47,689)	3,833
Remeasurements:			
Actuarial gains and losses by changes in demographic assumptions	38,894	—	38,894
Actuarial gains and losses by changes in financial assumptions	95,111	—	95,111
Actuarial gains and losses by experience adjustments	33,968	—	33,968
Return on plan assets (excluding amounts included in interest income)	—	22,420	22,420
Contributions	—	(300,245)	(300,245)
Payments from plans (benefit payments)	(103,663)	103,652	(11)
Payments from the Group	(29,583)	—	(29,583)
Transfer in	8,614	(8,394)	220
Transfer out	(8,394)	8,394	—
Effect of exchange rate changes	17	—	17
Others	6,095	(2)	6,093
Ending	<u>₩ 2,172,260</u>	<u>₩ (1,910,047)</u>	<u>₩ 262,213</u>

	2019		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities
	(In millions of Korean won)		
Beginning	₩ 2,172,260	₩ (1,910,047)	₩ 262,213
Current service cost	226,788	—	226,788
Past service cost	2,276	—	2,276
Interest cost (income)	48,795	(43,250)	5,545
Remeasurements:			
Actuarial gains and losses by changes in demographic assumptions	(3,122)	—	(3,122)
Actuarial gains and losses by changes in financial assumptions	61,547	—	61,547
Actuarial gains and losses by experience adjustments	7,458	—	7,458
Return on plan assets (excluding amounts included in interest income)	—	11,116	11,116
Contributions	—	(288,420)	(288,420)
Payments from plans (benefit payments)	(141,820)	141,798	(22)
Payments from the Group	(32,556)	—	(32,556)
Transfer in	7,775	(7,425)	350
Transfer out	(7,517)	7,517	—
Effect of exchange rate changes	(2)	—	(2)
Others	(129)	1	(128)
Ending ¹	<u>₩ 2,341,753</u>	<u>₩ (2,088,710)</u>	<u>₩ 253,043</u>

¹ The net defined benefit liabilities of ₩253,043 million is calculated by subtracting ₩946 million net defined benefit assets from ₩253,989 million net defined benefit liabilities

Details of the net defined benefit liabilities as of December 31, 2018 and 2019, are as follows:

	2018	2019
	(In millions of Korean won)	
Present value of defined benefit obligation	₩ 2,172,260	₩ 2,341,753
Fair value of plan assets	(1,910,047)	(2,088,710)
Net defined benefit liabilities	<u>₩ 262,213</u>	<u>₩ 253,043</u>

Details of post-employment benefits recognized in profit or loss as employee compensation and benefits for the years ended December 31, 2017, 2018 and 2019, are as follows:

	2017	2018	2019
	(In millions of Korean won)		
Current service cost	₩208,037	₩208,470	₩226,788
Past service cost ¹	21,356	7,912	2,276
Net interest expenses of net defined benefit liabilities	4,108	3,833	5,545
Gain or loss on settlement	—	(1,000)	—
Post-employment benefits ²	<u>₩233,501</u>	<u>₩219,215</u>	<u>₩234,609</u>

¹ During the year ended December 31, 2018, other provisions (amounting to ₩ 22,306 million as of December 31, 2017) were transferred into net defined benefit liabilities.

- ² Including post-employment benefits amounting to ₩ 2,575 million recognized as other operating expense and prepayment of ₩ 121 million recognized as other assets as of and for the year ended December 31, 2019, post-employment benefits amounting to ₩ 2,047 million recognized as other operating expense and prepayment of ₩ 83 million recognized as other assets as of and for the year ended December 31, 2018, and post-employment benefits amounting to ₩ 1,755 million recognized as other operating expense and prepayment of ₩ 42 million recognized as other assets for the year ended December 31, 2017.

Remeasurements of the net defined benefit liabilities recognized as other comprehensive income for the years ended December 31, 2017, 2018 and 2019, are as follows:

	<u>2017</u>	<u>2018</u>	<u>2019</u>
	(In millions of Korean won)		
Remeasurements:			
Return on plan assets (excluding amounts included in interest income) . . .	₩(16,220)	₩ (22,420)	₩(11,116)
Actuarial gains and losses	46,040	(167,973)	(65,883)
Income tax effects	(7,215)	52,377	21,172
Remeasurements after income tax	<u>₩ 22,605</u>	<u>₩(138,016)</u>	<u>₩(55,827)</u>

The details of fair value of plan assets as of December 31, 2018 and 2019, are as follows:

	<u>2018</u>		
	<u>Assets quoted in an active market</u>	<u>Assets not quoted in an active market</u>	<u>Total</u>
	(In millions of Korean won)		
Cash and due from financial institutions	₩ —	₩1,908,028	₩1,908,028
Investment fund	—	2,019	2,019
Total	<u>₩ —</u>	<u>₩1,910,047</u>	<u>₩1,910,047</u>

	<u>2019</u>		
	<u>Assets quoted in an active market</u>	<u>Assets not quoted in an active market</u>	<u>Total</u>
	(In millions of Korean won)		
Cash and due from financial institutions	₩ —	₩2,087,861	₩2,087,861
Investment fund	—	849	849
Total	<u>₩ —</u>	<u>₩2,088,710</u>	<u>₩2,088,710</u>

Key actuarial assumptions used as of December 31, 2018 and 2019, are as follows:

	<u>2018</u>	<u>2019</u>
Discount rate (%)	2.00~2.30	1.60~2.00
Salary increase rate (%)	0.00~7.50	0.00~7.50
Turnover (%)	0.00~50.00	0.00~50.00

Mortality assumptions are based on the experience-based mortality table of Korea Insurance Development Institute of 2019.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions as of December 31, 2019, are as follows:

	Changes in principal assumption	Effect on net defined benefit obligation	
		Increase in principal assumption	Decrease in principal assumption
Discount rate (%)	0.5 p.	4.22 decrease	4.48 increase
Salary increase rate (%)	0.5 p.	1.86 increase	6.18 decrease
Turnover (%)	0.5 p.	0.75 decrease	0.67 increase

The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the statement of financial position.

Expected maturity analysis of undiscounted pension benefits (including expected future benefit) as of December 31, 2019, is as follows:

	Up to 1 year	1~2 years	2~5 years	5~10 years	Over 10 years	Total
	(In millions of Korean won)					
Pension benefits ¹	₩ 74,718	153,129	647,074	1,365,073	3,707,746	₩5,947,740

¹ Excluded amount to be settled per promotion-incentivized defined contribution plan.

The weighted average duration of the defined benefit obligation is 1.0 ~ 11.7 years.

Expected contribution to plan assets for periods after December 31, 2019, is estimated to be ₩ 215,290 million.

25. Other Liabilities

Details of other liabilities as of December 31, 2018 and 2019, are as follows:

	<u>2018</u>	<u>2019</u>
	(In millions of Korean won)	
Other financial liabilities		
Other payables	₩ 7,910,887	₩ 9,485,597
Prepaid card and debit card	25,831	27,555
Accrued expenses	2,986,210	3,066,445
Financial guarantee liabilities	43,395	46,428
Deposits for letter of guarantees and others	685,451	862,968
Domestic exchange settlement credits	1,689,908	2,079,636
Foreign exchanges settlement credits	102,187	114,316
Borrowings from other business accounts	13,166	256
Other payables from trust accounts	5,285,108	5,216,460
Liability incurred from agency relationships	605,076	771,609
Account for agency businesses	460,949	407,475
Dividend payables	2,019	473
Lease liabilities	—	544,439
Others	18,120	5,930
Sub-total	<u>19,828,307</u>	<u>22,629,587</u>
Other non-financial liabilities		
Other payables	319,267	283,771
Unearned revenue	378,792	465,501
Accrued expenses	744,863	716,180
Deferred revenue on credit card points	187,459	206,188
Withholding taxes	137,236	158,992
Separate account liabilities	5,401,192	5,047,080
Others	203,880	229,960
Sub-total	<u>7,372,689</u>	<u>7,107,672</u>
Total	<u>₩27,200,996</u>	<u>₩29,737,259</u>

26. Equity

26.1 Share Capital

Details of share capital and number of issued shares of the Parent Company as of December 31, 2018 and 2019, are as follows:

<u>Type of share</u>	<u>2018</u>	<u>2019</u>
	<u>Ordinary shares</u>	<u>Ordinary shares</u>
Number of authorized shares	1,000,000,000	1,000,000,000
Par value per share	₩ 5,000	₩ 5,000
Number of issued shares	418,111,537	415,807,920
Share capital ^{1,2}	₩ 2,090,558	₩ 2,090,558

¹ In millions of Korean won.

² Due to the retirement of shares deducted through profits, it is different from the total par value of the shares issued.

Changes in outstanding shares for the years ended December 31, 2018 and 2019, are as follows:

	<u>2018</u>	<u>2019</u>
	(In number of shares)	
Beginning	398,963,614	395,551,297
Increase	—	—
Decrease	(3,412,317)	(5,916,962)
Ending	<u>395,551,297</u>	<u>389,634,335</u>

26.2 Hybrid Securities

Details of hybrid securities classified as of December 31, 2018 and 2019, are as follows:

	<u>Issuance date</u>	<u>Maturity</u>	<u>Interest rate</u> (%)	<u>2018</u>	<u>2019</u>
				(In number of shares)	
The 1-1st Hybrid securities	May 2, 2019	Perpetual bond	3.23	—	349,309
The 1-2nd Hybrid securities	May 2, 2019	Perpetual bond	3.44	—	49,896
				<u>—</u>	<u>399,205</u>

The above hybrid securities are early redeemable by the Group after 5 or 10 years from the issuance date. On the other hand, hybrid securities of ₩ 574,580 million issued by KB Kookmin Bank are recognized as non-controlling interests and are early redeemable every five years after the issuance date.

26.3 Capital Surplus

Details of capital surplus as of December 31, 2018 and 2019, are as follows:

	<u>2018</u>	<u>2019</u>
	(In millions of Korean won)	
Share premium	₩13,190,274	₩13,190,274
Loss on sales of treasury shares	(481,332)	(481,332)
Other capital surplus	4,412,718	4,413,835
Total	<u>₩17,121,660</u>	<u>₩17,122,777</u>

26.4 Accumulated Other Comprehensive Income

Details of accumulated other comprehensive income as of December 31, 2018 and 2019, are as follows:

	<u>2018</u>	<u>2019</u>
	(In millions of Korean won)	
Remeasurements of net defined benefit liabilities	₩(234,401)	₩(290,228)
Exchange differences on translating foreign operations	(5,784)	31,793
Net gains on financial instruments at fair value through other comprehensive income	450,694	487,331
Shares of other comprehensive income of associates and joint ventures	(4,377)	3,318
Cash flow hedges	5,849	(27,333)
Losses on hedges of a net investment in a foreign operation	(33,092)	(41,992)
Other comprehensive income arising from separate account	15,017	18,381
Fair value changes on financial liabilities designated at fair value due to own credit risk	(8,954)	(20,326)
Net overlay adjustments	(7,146)	187,077
Total	<u>₩ 177,806</u>	<u>₩ 348,021</u>

26.5 Retained Earnings

Details of retained earnings as of December 31, 2018 and 2019, are as follows:

	2018	2019
	(In millions of Korean won)	
Legal reserves ¹	₩ 390,216	₩ 482,807
Voluntary reserves	982,000	982,000
Unappropriated retained earnings	15,910,225	18,244,738
Total	<u>₩17,282,441</u>	<u>₩19,709,545</u>

- ¹ With respect to the allocation of net profit earned in a fiscal term, the Parent Company must set aside in its legal reserve an amount equal to at least 10% of its net income after tax as reported in the separate statement of comprehensive income each time it pays dividends on its net profits earned until its legal reserve reaches at least the aggregate amount of its share capital in accordance with Article 53 of the Financial Holding Company Act. The reserve is not available for the payment of cash dividends, but may be transferred to share capital, or used to reduce accumulated deficit.
- ² Retained earnings restricted for dividend at subsidiaries level pursuant to law and regulations amounts to ₩3,418,136 million as of December 31, 2019.

26.6 Treasury Shares

Changes in treasury shares outstanding for the year ended December 31, 2018 and 2019 are as follows:

	2018			
	Beginning	Acquisition	Disposal	Ending
	(In number of shares and millions of Korean won)			
Number of treasury shares ¹	19,073,954	3,486,286	—	22,560,240
Carrying amount ¹	₩ 755,973	₩ 212,576	₩ —	₩ 968,549

- ¹ For the year ended December 31, 2018, the treasury stock trust agreement of ₩300,000 million with Samsung Securities Co., Ltd., which had been signed in 2017, was terminated. In order to increase shareholder value, the Group entered into another treasury stock trust agreement of ₩300,000 million with Samsung Securities Co., Ltd. for the year ended December 31, 2018.

	2019			
	Beginning	Acquisition	Retirement	Ending
	(In number of shares and millions of Korean won)			
Number of treasury shares ¹	22,560,240	5,916,962	(2,303,617)	26,173,585
Carrying amount ¹	₩ 968,549	267,639	(100,000)	₩ 1,136,188

- ¹ For the year ended December 31, 2019, the treasury stock trust agreement of ₩ 300,000 million with Samsung Securities Co., Ltd., which had been signed in 2018, was terminated.

27. Net Interest Income

Details of interest income and interest expense for the years ended December 31, 2017, 2018 and 2019 are as follows:

	<u>2017</u>	
	(In millions of Korean won)	
Interest income		
Due from financial institutions	₩	127,434
Financial assets at fair value through profit or loss		536,605
Loans		9,990,792
Financial investments		
Available-for-sale financial assets		678,716
Held-to-maturity financial assets		480,595
Other		104,915
Sub-total		<u>11,919,057</u>
Interest expenses		
Deposits		2,345,885
Debts		367,587
Debentures		880,709
Other		78,262
Sub-total		<u>3,672,443</u>
Net interest income	₩	<u><u>8,246,614</u></u>
	<u>2018</u>	
	(In millions of Korean won)	
Interest income		
Due from financial institutions at fair value through profit or loss	₩	9,236
Securities measured at fair value through profit or loss		713,058
Loans measured at fair value through profit or loss		26,066
Securities measured at fair value through other comprehensive income		718,327
Loans measured at fair value through other comprehensive income		2,373
Deposits at amortized cost		109,155
Securities measured at amortized cost		604,709
Loans at amortized cost		11,431,359
Other		120,286
Sub-total		<u>13,734,569</u>
Interest expenses		
Deposits		3,041,739
Debts		544,562
Debentures		1,148,729
Other		94,611
Sub-total		<u>4,829,641</u>
Net interest income	₩	<u><u>8,904,928</u></u>

	<u>2019</u>
	<u>(In millions of Korean won)</u>
Interest income	
Due from financial institutions at fair value through profit or loss	₩ 2,685
Securities measured at fair value through profit or loss	668,377
Loans measured at fair value through profit or loss	33,001
Securities measured at fair value through other comprehensive income	774,864
Loans measured at fair value through other comprehensive income	14,708
Deposits at amortized cost	150,635
Securities measured at amortized cost	599,519
Loans at amortized cost	12,247,493
Other	147,905
Sub-total	<u>14,639,187</u>
Interest expenses	
Deposits	3,481,121
Debts	596,425
Debentures	1,240,566
Other	124,288
Sub-total	<u>5,442,400</u>
Net interest income	<u>₩ 9,196,787</u>

Interest income recognized on impaired loans is ₩54,235 million, ₩48,974 million and ₩54,033 million for the years ended December 31, 2017, 2018 and 2019, respectively.

28. Net Fee and Commission Income

Details of fee and commission income, and fee and commission expense for the years ended December 31, 2017, 2018 and 2019, are as follows:

	2017	2018	2019
	(In millions of Korean won)		
Fee and commission income			
Banking activity fees	₩ 188,405	₩ 208,443	₩ 214,512
Lending activity fees	74,858	74,340	83,916
Credit & Debit card related fees and commissions	1,847,743	1,360,515	1,316,636
Agent activity fees	152,028	149,585	172,211
Trust and other fiduciary fees	353,903	363,767	388,352
Fund management related fees	132,889	132,657	153,798
Guarantee fees	49,546	44,104	48,122
Foreign currency related fees	106,038	124,201	134,145
Commissions from transfer agent services	195,556	167,071	145,846
Other business account commission on consignment	33,793	36,947	36,813
Commissions received on securities business	450,199	518,309	445,987
Lease fees	144,221	246,537	428,195
Others	259,071	291,244	310,714
Sub-total	<u>3,988,250</u>	<u>3,717,720</u>	<u>3,879,247</u>
Fee and commission expense			
Trading activity related fees ¹	29,547	31,889	28,869
Lending activity fees	23,253	25,734	26,040
Credit card related fees and commissions	1,482,221	907,831	892,391
Outsourcing related fees	127,542	164,594	190,312
Foreign currency related fees	27,394	43,053	42,902
Other	248,269	301,243	343,729
Sub-total	<u>1,938,226</u>	<u>1,474,344</u>	<u>1,524,243</u>
Net fee and commission income	<u>₩2,050,024</u>	<u>₩2,243,376</u>	<u>₩2,355,004</u>

¹ The fees from financial instruments at fair value through profit or loss.

29. Net Gains or Losses on Financial Assets/Liabilities at Fair Value Through Profit or Loss

29.1 Net Gains or Losses on Financial Instruments Held for Trading

Net gain or loss from financial instruments at fair value through profit or loss includes dividend income, gains or losses arising from changes in the fair values, sales and redemptions. Details of net gain or loss from financial instruments held for trading for the years ended December 31, 2017, 2018 and 2019, are as follows:

	2017 ¹
	(In millions of Korean won)
Gains related to financial instruments held for trading	
Financial assets held for trading	
Debt securities	₩ 191,243
Equity securities	546,169
Sub-total	<u>737,412</u>
Derivatives held for trading	
Interest rate	1,753,449
Currency	5,777,818
Stock or stock index	2,094,667
Credit	76,700
Commodity	17,278
Other	23,397
Sub-total	<u>9,743,309</u>
Financial liabilities held for trading	<u>29,726</u>
Other financial instruments	109
Total	<u>₩ 10,510,556</u>
Losses related to financial instruments held for trading	
Financial assets held for trading	
Debt securities	₩ 315,506
Equity securities	353,864
Sub-total	<u>669,370</u>
Derivatives held for trading	
Interest rate	1,625,541
Currency	5,661,323
Stock or stock index	1,445,714
Credit	76,483
Commodity	8,481
Other	20,053
Sub-total	<u>8,837,595</u>
Financial liabilities held for trading	<u>58,267</u>
Other financial instruments	117
Total	<u>9,565,349</u>
Net gains or losses on financial instruments held for trading	<u>₩ 945,207</u>

	<u>2018</u>
	<u>(In millions of Korean won)</u>
Revenue from financial instruments at fair value through profit or loss	
Financial assets at fair value through profit or loss	
Debt securities	₩ 1,544,892
Equity securities	571,404
Sub-total	<u>2,116,296</u>
Derivatives held for trading	
Interest rate	2,328,576
Currency	3,764,985
Stock or stock index	1,383,446
Credit	38,461
Commodity	8,285
Other	92,947
Sub-total	<u>7,616,700</u>
Financial liabilities at fair value through profit or loss	<u>72,410</u>
Other financial instruments	<u>22</u>
Total	<u>₩ 9,805,428</u>
Expense from financial instruments at fair value through profit or loss	
Financial assets at fair value through profit or loss	
Debt securities	₩ 850,129
Equity securities	475,968
Sub-total	<u>1,326,097</u>
Derivatives held for trading	
Interest rate	2,610,305
Currency	3,499,356
Stock or stock index	1,626,007
Credit	36,747
Commodity	10,456
Other	117,741
Sub-total	<u>7,900,612</u>
Financial liabilities at fair value through profit or loss	<u>134,287</u>
Other financial instruments	<u>60</u>
Total	<u>9,361,056</u>
Net gains or losses on financial instruments held for trading	<u>₩ 444,372</u>

	<u>2019</u>	
	(In millions of Korean won)	
Revenue from financial instruments at fair value through profit or loss		
Financial assets at fair value through profit or loss		
Debt securities	₩	1,613,946
Equity securities		428,646
Sub-total		<u>2,042,592</u>
Derivatives held for trading		
Interest rate		2,685,998
Currency		5,251,597
Stock or stock index		2,612,422
Credit		41,548
Commodity		15,240
Other		212,731
Sub-total		<u>10,819,536</u>
Financial liabilities at fair value through profit or loss		46,750
Other financial instruments		5,811
Total	₩	<u><u>12,914,689</u></u>
Expense from financial instruments at fair value through profit or loss		
Financial assets at fair value through profit or loss		
Debt securities	₩	752,999
Equity securities		315,743
Sub-total		<u>1,068,742</u>
Derivatives held for trading		
Interest rate		2,758,205
Currency		5,118,095
Stock or stock index		1,585,086
Credit		42,172
Commodity		9,437
Other		190,979
Sub-total		<u>9,703,974</u>
Financial liabilities at fair value through profit or loss		94,426
Other financial instruments		5,704
Total		<u>10,872,846</u>
Net gains or losses on financial instruments held for trading	₩	<u><u>2,041,843</u></u>

29.2 Net Gains or Losses on Financial Instruments Designated at Fair Value Through Profit or Loss

Net gain or loss from financial instruments designated at fair value through profit or loss includes dividend income and gains or losses arising from changes in the fair values, sales and redemptions. Details of net gain or loss from financial instruments designated at fair value through profit or loss for the years ended December 31, 2017, 2018 and 2019, are as follows:

	<u>2017¹</u>	<u>2018</u>	<u>2019</u>
	(In millions of Korean won)		
Revenue from financial instruments designated at fair value through profit or loss			
Financial assets designated at fair value through profit or loss . .	₩ 128,673	₩ —	₩ —
Financial liabilities designated at fair value through profit or loss	474,736	667,508	555,749
Sub-total	<u>603,409</u>	<u>667,508</u>	<u>555,749</u>
Expense from financial instruments designated at fair value through profit or loss			
Financial assets designated at fair value through profit or loss . .	78,113	—	—
Financial liabilities designated at fair value through profit or loss	1,266,779	760,577	1,953,720
Sub-total	<u>1,344,892</u>	<u>760,577</u>	<u>1,953,720</u>
Net gains or losses on financial instruments designated at fair value through profit or loss	<u>₩ (741,483)</u>	<u>₩ (93,069)</u>	<u>₩ (1,397,971)</u>

¹ Regarding reclassification of interest income following the change of accounting policy, gains related to financial instruments held for trading for 2017, has been restated.

30. Other Operating Income and Expenses

Details of other operating income and expenses for the years ended December 31, 2017, 2018 and 2019, are as follows:

	2017
	(In millions of Korean won)
Other operating income	
Revenue related to available-for-sale financial assets	
Gain on redemption of available-for-sale financial assets	₩ 884
Gain on sale of available-for-sale financial assets	113,001
Sub-total	<u>113,885</u>
Revenue related to held-to-maturity financial assets	
Gain on redemption of held-to-maturity financial assets	374
Sub-total	<u>374</u>
Gain on foreign exchange transactions	2,520,168
Dividend income	276,829
Others	325,745
Total other operating income	<u>3,237,001</u>
Other operating expenses	
Expense related to available-for-sale financial assets	
Loss on redemption of available-for-sale financial assets	1,403
Loss on sale of available-for-sale financial assets	174,543
Impairment on available-for-sale financial assets	47,917
Sub-total	<u>223,863</u>
Loss on foreign exchanges transactions	2,472,657
Others	1,442,371
Total other operating expenses	<u>4,138,891</u>
Net other operating expenses	<u>₩ (901,890)</u>

	<u>2018</u>
	<u>(In millions of Korean won)</u>
Other operating income	
Revenue related to financial assets measured at fair value through other comprehensive income	
Gain on redemption of financial assets measured at fair value through other comprehensive income	₩ 259
Gain on sale of financial assets measured at fair value through other comprehensive income	134,875
Sub-total	<u>135,134</u>
Financial assets at amortized cost	
Gain on sale of loans at amortized cost	46,877
Sub-total	<u>46,877</u>
Gain on foreign exchange transactions	1,600,161
Dividend income	83,930
Others	260,709
Total other operating income	<u>2,126,811</u>
Other operating expenses	
Expense on redemption of financial assets measured at fair value through other comprehensive income	
Losses on redemption of financial assets measured at fair value through other comprehensive income	17
Losses on sale of financial assets measured at fair value through other comprehensive income	35,864
Sub-total	<u>35,881</u>
Financial assets at amortized cost	
Loss on sale of loans at amortized cost	9,006
Sub-total	<u>9,006</u>
Loss on foreign exchanges transactions	1,539,837
Others	1,672,123
Total other operating expenses	<u>3,256,847</u>
Net other operating expenses	<u>₩ (1,130,036)</u>

2019

(In millions of Korean won)

Other operating income

Revenue related to financial assets measured at fair value through other comprehensive income		
Gain on redemption of financial assets measured at fair value through other comprehensive income	₩	796
Gain on sale of financial assets measured at fair value through other comprehensive income		222,371
Sub-total		223,167
Financial assets at amortized cost		
Gain on sale of loans at amortized cost		80,746
Sub-total		80,746
Gain on foreign exchange transactions		2,183,703
Dividend income		54,768
Others		321,244
Total other operating income		2,863,628
Other operating expenses		
Expense on redemption of financial assets measured at fair value through other comprehensive income		
Losses on redemption of financial assets measured at fair value through other comprehensive income		—
Losses on sale of financial assets measured at fair value through other comprehensive income		16,975
Sub-total		16,975
Financial assets at amortized cost		
Loss on sale of loans at amortized cost		19,439
Sub-total		19,439
Loss on foreign exchanges transactions		1,970,294
Others		1,920,244
Total other operating expenses		3,926,952
Net other operating expenses	₩	(1,063,324)

31. General and Administrative Expenses

31.1 General and Administrative Expenses

Details of general and administrative expenses for the years ended December 31, 2017, 2018 and 2019, are as follows:

	<u>2017</u>	<u>2018</u>	<u>2019</u>
	(In millions of Korean won)		
Employee Benefits			
Salaries and short-term employee benefits—salaries	₩2,465,132	₩2,512,945	₩2,557,821
Salaries and short-term employee benefits—others	822,536	870,356	848,421
Post-employment benefits—defined benefit plans	231,704	217,085	231,913
Post-employment benefits—defined contribution plans	15,046	21,056	27,924
Termination benefits	160,798	242,010	239,790
Share-based payments	73,370	10,930	49,418
Sub-total	<u>3,768,586</u>	<u>3,874,382</u>	<u>3,955,287</u>
Depreciation and amortization	<u>370,378</u>	<u>408,771</u>	<u>784,431</u>
Other general and administrative expenses			
Rental expense	320,920	361,344	109,745
Tax and dues	195,965	214,683	238,670
Communication	44,516	46,661	48,749
Electricity and utilities	31,158	28,823	29,161
Publication	17,383	16,018	15,136
Repairs and maintenance	20,524	22,432	23,947
Vehicle	11,587	12,495	11,537
Travel	17,407	19,393	21,452
Training	26,664	30,310	31,451
Service fees	179,311	210,081	227,631
Electronic data processing expenses	172,007	189,007	258,456
Advertising	199,676	217,244	228,826
Others	252,582	266,868	286,538
Sub-total	<u>1,489,700</u>	<u>1,635,359</u>	<u>1,531,299</u>
Total	<u>₩5,628,664</u>	<u>₩5,918,512</u>	<u>₩6,271,017</u>

31.2 Share-based Payments

31.2.1 Stock grants

The Group changed the scheme of share-based payment from stock options to stock grants in November 2007. The stock grant award program is an incentive plan that sets, on grant date, the maximum amount of shares that can be awarded. Actual stock granted at the end of the vesting period is determined in accordance with achievement of pre-specified targets over the vesting period.

Details of stock grants linked to long-term performance as of December 31, 2019, are as follows:

	Grant date	Number of granted shares ¹ (In number of shares)	Vesting conditions ²
KB Financial Group Inc.			
Series 18	Jul. 17, 2017	7,826	Services fulfillment, market performance ³ 30~50% and non-market performance ⁴ 50~70%
Series 19	Nov. 21, 2017	46,890	Services fulfillment, market performance ³ 35% and non-market performance ⁵ 65%
Series 20	Jan. 01, 2018	38,826	Services fulfillment, market performance ³ 30~50% and non-market performance ⁴ 50~70%
Series 21	Jan. 01, 2019	28,926	Services fulfillment, market performance ³ 30% and non-market performance ⁴ 70%
Series 22	Apr. 01, 2019	3,227	Services fulfillment, market performance ³ 30% and non-market performance ⁴ 70%
Series 23	May 27, 2019	1,392	Services fulfillment, market performance ³ 30% and non-market performance ⁴ 70%
Series 24	Jul. 17, 2019	11,224	Services fulfillment, market performance ³ 30% and non-market performance ⁴ 70%
Deferred grant	2015	10,043	Satisfied
Deferred grant	2016	12,093	Satisfied
Deferred grant	2017	45,728	Satisfied
Deferred grant	2018	8,057	Satisfied
		214,232	
Kookmin Bank			
Series 72	Aug. 28, 2017	6,742	Services fulfillment, market performance ³ 30~50% and non-market performance ⁴ 50~70%
Series 73	Nov. 21, 2017	27,786	Services fulfillment, market performance ³ 30% and non-market performance ⁶ 70%
Series 74	Jan. 01, 2018	134,465	Services fulfillment, market performance ³ 30~50% and non-market performance ⁴ 50~70%
Series 75	Jan. 01, 2019	192,170	Services fulfillment, market performance ³ 30~50% and non-market performance ⁴ 50~70%
Series 76	Apr. 01, 2019	5,380	Services fulfillment, market performance ³ 30~50% and non-market performance ⁴ 50~70%
Series 77	May 27, 2019	5,369	Services fulfillment, market performance ³ 30~50% and non-market performance ⁴ 50~70%
Series 78	Nov. 21, 2019	36,443	Services fulfillment, market performance ³ 30% and non-market performance ⁶ 70%
Deferred grant	2015	4,756	Satisfied
Deferred grant	2016	65,419	Satisfied
Deferred grant	2017	95,697	Satisfied
Deferred grant	2018	97,244	Satisfied
		671,671	

	Number of granted shares ¹	Vesting conditions ²
Grant date (In number of shares)		
Other subsidiaries		
Stock granted in 2010	106	
Stock granted in 2011	146	
Stock granted in 2012	420	
Stock granted in 2013	1,007	
Stock granted in 2014	1,223	
Stock granted in 2015	4,456	Services fulfillment, market performance ³ 10~50% and non-market performance ⁴ , 50~90%
Stock granted in 2016	23,474	
Stock granted in 2017	83,459	
Stock granted in 2018	257,064	
Stock granted in 2019	241,226	
	612,581	
	1,498,484	

¹ Granted shares represent the total number of shares initially granted to executives and employees that have residual shares at the end of reporting period (Deferred grants are residual shares as of December 31, 2019).

² Executives and employees were given the option of deferred payment of the granted shares (after the date of retirement), payment ratio, and payment period. Accordingly, a certain percentage of the granted amount is deferred for up to five years after the date of retirement after the deferred grant has been confirmed.

³ Relative TSR (Total Shareholders Return): [(Fair value at the end of the contract—Fair value at the beginning of the contract) + (Total amount of dividend per share paid during the contract period)] / Fair value at the beginning of the contract

⁴ Accomplishment of subsidiaries' performance and accomplishment of performance results.

⁵ EPS, Asset Quality, HCR0I, Profit from non-banking segment

⁶ EPS, Asset Quality

Details of stock grants linked to short-term performance as of December 31, 2019, are as follows:

	<u>Estimated number of vested shares¹</u>	<u>Vesting conditions</u>
	(In number of shares)	
KB Financial Group Inc.		
Stock granted in 2015	9,690	Satisfied
Stock granted in 2016	11,783	Satisfied
Stock granted in 2017	12,273	Satisfied
Stock granted in 2018	20,664	Satisfied
Stock granted in 2019	30,504	Proportional to service period
Kookmin Bank		
Stock granted in 2015	15,831	Satisfied
Stock granted in 2016	52,855	Satisfied
Stock granted in 2017	55,490	Satisfied
Stock granted in 2018	109,296	Satisfied
Stock granted in 2019	112,445	Proportional to service period
Other subsidiaries		
Stock granted in 2015	16,922	Satisfied
Stock granted in 2016	94,201	Satisfied
Stock granted in 2017	238,115	Satisfied
Stock granted in 2018	457,006	Satisfied
Stock granted in 2019	284,888	Proportional to service period

¹ Executives and employees were given the option of deferred payment of the granted shares (after the date of retirement), payment ratio, and payment period. Accordingly, a certain percentage of the granted amount is deferred for up to five years after the date of retirement after the deferred grant has been confirmed.

Share grants are measured at fair value using the Monte Carlo Simulation Model and assumptions used in determining the fair value as of December 31, 2019, are as follows:

	<u>Risk free rate (%)</u>	<u>Fair value (Market performance condition)</u>	<u>Fair value (Non-market performance condition)</u>
Linked to long term performance			
(KB Financial Group Inc.)			
Series 18	1.34	40,362~44,034	43,659~47,631
Series 19	1.34	38,220~41,775	42,493~46,445
Series 20	1.34	41,135~45,035	43,659~47,631
Series 21	1.34	41,489~46,021	42,336~47,631
Series 22	1.34	41,070~44,926	41,070~44,926
Series 23	1.34	41,070~44,926	41,070~44,926
Series 24	1.34	41,070~44,926	41,070~44,926
Deferred grant in 2015	1.34	—	38,616~47,631
Deferred grant in 2016	1.34	—	42,336~47,631
Deferred grant in 2017	1.34	—	43,659~47,631
Deferred grant in 2018	1.34	—	42,336~47,631

	Risk free rate (%)	Fair value (Market performance condition)	Fair value (Non-market performance condition)
(Kookmin Bank)			
Series 72	1.34	43,659~47,631	43,659~47,631
Series 73	1.34	41,253~43,741	43,803~46,445
Series 74	1.34	41,279~45,035	43,659~47,631
Series 75	1.34	41,506~46,021	42,336~47,631
Series 76	1.34	41,070~44,926	41,070~44,926
Series 77	1.34	41,070~44,926	41,070~44,926
Series 78	1.34	38,303~41,900	41,070~44,926
Grant deferred in 2015	1.34	—	44,926~47,631
Grant deferred in 2016	1.34	—	42,336~47,631
Grant deferred in 2017	1.34	—	42,336~47,631
Grant deferred in 2018	1.34	—	42,336~47,631
(Other subsidiaries)			
Share granted in 2010	1.34	—	46,281
Share granted in 2011	1.34	—	46,281
Share granted in 2012	1.34	—	44,926~46,281
Share granted in 2013	1.34	—	44,926~47,631
Share granted in 2014	1.34	—	40,065~46,766
Share granted in 2015	1.34	—	41,070~47,676
Share granted in 2016	1.34	—	39,801~47,631
Share granted in 2017	1.34	35,863~46,817	38,616~47,631
Share granted in 2018	1.34	37,446~45,240	39,801~47,631
Share granted in 2019	1.34	39,878~47,631	41,070~47,631
Linked to short-term performance			
(KB Financial Group Inc.)			
Share granted in 2015	1.34	—	38,616~47,631
Share granted in 2016	1.34	—	39,801~47,631
Share granted in 2017	1.34	—	42,336~47,631
Share granted in 2018	1.34	—	42,336~47,631
Share granted in 2019	1.34	—	43,659~46,281
(Kookmin Bank)			
Share granted in 2015	1.34	—	42,336~47,631
Share granted in 2016	1.34	—	41,070~47,631
Share granted in 2017	1.34	—	42,336~47,631
Share granted in 2018	1.34	—	42,336~47,631
Share granted in 2019	1.34	—	43,659~46,281
(Other subsidiaries)			
Share granted in 2015	1.34	—	38,616~47,631
Share granted in 2016	1.34	—	38,616~47,631
Share granted in 2017	1.34	—	38,616~47,631
Share granted in 2018	1.34	—	38,616~47,631
Share granted in 2019	1.34	—	39,801~46,281

The Group used the volatility of the stock price over the previous year as the expected volatility, used the arithmetic mean of the dividend rate of one year before, two years before, and three years before the base year as the dividend yield, and used one-year risk-free interest rate in order to calculate fair value.

As of December 31, 2018 and 2019, the accrued expenses related to share-based payments including share grants amounted to ₩ 111,058 million and ₩ 124,853 million, respectively, and the compensation costs from share grants amounting to ₩ 10,930 million and ₩ 49,418 million were incurred during the years ended 2018 and 2019, respectively.

Details of Mileage stock as of December 31, 2019, are as follows:

	<u>Grant date</u>	<u>Number of granted shares¹</u> (in number of shares)	<u>Expected exercise period (years)²</u>	<u>Remaining shares</u>
Stock granted in 2017	Jan. 09, 2017	28,925	0.00~0.02	11,365
	Feb. 03, 2017	43	0.00~0.09	28
	Apr. 03, 2017	82	0.00~0.25	61
	May 22, 2017	20	0.00~0.39	20
	Jul. 03, 2017	52	0.00~0.50	52
	Aug. 07, 2017	29	0.00~0.60	19
	Aug. 08, 2017	5	0.00~0.60	2
	Aug. 16, 2017	204	0.00~0.62	151
	Aug. 17, 2017	40	0.00~0.63	24
	Aug. 24, 2017	387	0.00~0.65	288
	Sept. 08, 2017	83	0.00~0.69	73
	Nov. 01, 2017	120	0.00~0.84	103
	Nov. 06, 2017	106	0.00~0.85	101
	Dec. 06, 2017	105	0.00~0.93	83
Dec. 26, 2017	255	0.00~0.99	175	
Dec. 29, 2017	114	0.00~0.99	58	
Stock granted in 2018	Jan. 10, 2018	19,197	0.00~1.03	15,430
	Feb. 12, 2018	9	0.00~1.12	7
	Apr. 02, 2018	115	0.00~1.25	99
	Apr. 30, 2018	86	0.00~1.33	62
	May 08, 2018	170	0.00~1.35	150
	Jun. 01, 2018	140	0.00~1.42	121
	Jul. 02, 2018	180	0.00~1.50	123
	Aug. 07, 2018	194	0.00~1.60	175
	Aug. 09, 2018	47	0.00~1.61	38
	Aug. 14, 2018	30	0.00~1.62	30
	Aug. 16, 2018	130	0.00~1.62	112
	Sept. 07, 2018	106	0.00~1.68	82
	Oct. 04, 2018	129	0.00~1.76	106
	Nov. 01, 2018	258	0.00~1.84	248
	Nov. 06, 2018	236	0.00~1.85	206
	Dec. 03, 2018	132	0.00~1.92	132
	Dec. 04, 2018	21	0.00~1.93	21
Dec. 07, 2018	91	0.00~1.93	91	
Dec. 12, 2018	64	0.00~1.95	57	
Dec. 18, 2018	271	0.00~1.96	271	
Dec. 19, 2018	42	0.00~1.97	42	
Dec. 31, 2018	127	0.00~2.00	127	

	Grant date	Number of granted shares ¹ (in number of shares)	Expected exercise period (years) ²	Remaining shares
Stock granted in 2019	Jan. 11, 2019	26,580	0.00~2.03	25,563
	Feb. 01, 2019	12	0.00~2.09	12
	Apr. 01, 2019	167	0.00~2.25	167
	Apr. 18, 2019	105	0.00~2.30	105
	Apr. 22, 2019	33	0.00~2.31	33
	Jul. 01, 2019	109	0.00~2.50	109
	Aug. 29, 2019	39	0.00~2.66	39
	Sept. 02, 2019	50	0.00~2.67	50
	Nov. 01, 2019	119	0.00~2.84	119
	Nov. 08, 2019	14	0.00~2.85	14
	Dec. 05, 2019	56	0.00~2.93	56
	Dec. 06, 2019	84	0.00~2.93	84
	Dec. 31, 2019	87	0.00~3.00	87
	Total	79,800	Total	56,771

¹ Mileage stock may be exercised after one year from the grant date for two years. When the mileage stock is exercised, the closing price of prior month is applied. However, in case of transfer or retirement during the vesting period, mileage stock may still be exercised at the closing price of prior month.

² The remaining shares are assessed based on the stock price as of December 31, 2019. These shares are vested immediately at grant date.

As of December 31, 2018 and 2019, the accrued expenses for share-based payments in regard to mileage stock amounted to ₩ 2,283 million and ₩ 2,705 million, respectively, and the compensation costs amounting to ₩ 1,350 million and ₩ 1,334 million were recognized for the years ended December 31, 2018 and 2019, respectively.

32. Net Other Non-operating Income and Expenses

Details of other non-operating income and expenses for the years ended December 31, 2017, 2018 and 2019, are as follows:

	2017	2018	2019
	(In millions of Korean won)		
Other non-operating income			
Gain on disposal of property and equipment	₩ 10,867	₩ 34,238	₩ 35,747
Rent received	32,254	55,321	85,720
Gain on bargain purchase	122,986	—	—
Gain on sales of disposal group held for sale	22,371	118,716	2,731
Others	72,248	37,122	84,793
Sub-total	260,726	245,397	208,991
Other non-operating expenses			
Loss on disposal of property and equipment	2,500	6,131	8,587
Donation	54,419	130,249	102,711
Restoration cost	3,465	4,386	2,902
Management cost for special bonds	3,279	3,338	3,382
Loss on sales of disposal group held for sale	45,764	—	—
Impairment loss on disposition of disposal group held for sale	7,198	—	—
Impairment loss for goodwill	1,202	—	—
Others	104,023	91,502	64,523
Sub-total	221,850	235,606	182,105
Net other non-operating income	₩ 38,876	₩ 9,791	₩ 26,886

33. Income Tax Expense

Income tax expense for the years ended December 31, 2017, 2018 and 2019, are as follows:

	<u>2017</u>	<u>2018</u>	<u>2019</u>
	(In millions of Korean won)		
Tax payable			
Current tax expense	₩700,597	₩1,096,600	₩1,043,047
Adjustments recognized in the period for current tax of prior years	(39,445)	22,925	(51,130)
Sub-total	<u>661,152</u>	<u>1,119,525</u>	<u>991,917</u>
Changes in deferred income tax liabilities (assets)¹	<u>212,195</u>	<u>114,345</u>	<u>285,820</u>
Income tax recognized directly in equity			
Remeasurements of net defined benefit liabilities	(7,240)	52,377	21,172
Exchange difference in foreign operation	25,674	(13,087)	(5,714)
Change in value of available-for-sale financial assets	(84,781)	—	—
Change in value of held-to-maturity financial assets	(3,789)	—	—
Gains (losses) on financial assets at fair value through other comprehensive income	—	(33,329)	(13,168)
Shares of other comprehensive income of associates and joint ventures	20,975	1,374	(3,147)
Cash flow hedges	(4,368)	400	10,537
Hedges of a net investment in a foreign operation	(8,186)	10,292	3,194
OCI related with assets held for sale	(21,498)	—	—
OCI related with separate account assets	4,829	(10,864)	(1,301)
Fair value changes on financial liabilities designated at fair value due to own credit risk	—	(563)	4,294
Net gains on overlay adjustment	—	(884)	(72,817)
Sub-total	<u>(78,384)</u>	<u>5,716</u>	<u>(56,950)</u>
Tax expense	<u>₩794,963</u>	<u>₩1,239,586</u>	<u>₩1,220,787</u>

¹ The corporate tax rate was changed due to the amendment of corporate tax law in 2017. Accordingly, the expected rate has been applied for the deferred tax assets and liabilities that are expected to be utilized in periods after 2017. Amended income tax rate for ₩ 200 million and below is 11%, for ₩ 200 million to ₩ 20 billion is 22%, for ₩ 20 billion to ₩ 300 billion is 24.2% and for over ₩ 300 billion is 27.5%.

An analysis of the net profit before income tax and income tax expense for the years ended December 31, 2017, 2018 and 2019, follows:

	2017		2018		2019	
	Tax rate	Amount	Tax rate	Amount	Tax rate	Amount
	(%)	(In millions of Korean won)	(%)	(In millions of Korean won)	(%)	(In millions of Korean won)
Net profit before income tax		<u>₩4,138,424</u>		<u>₩4,301,532</u>		<u>₩4,533,986</u>
Tax at the applicable tax rate ¹ . . .	24.19	1,001,037	27.26	1,172,559	27.27	1,236,484
Non-taxable income	(5.02)	(207,777)	(0.28)	(11,888)	(0.52)	(23,601)
Non-deductible expense	0.26	10,706	0.64	27,551	0.42	19,086
Tax credit and tax exemption	(0.04)	(1,658)	(0.01)	(637)	(0.01)	(627)
Temporary difference for which no deferred tax is recognized . .	(0.16)	(6,484)	0.29	12,260	(0.11)	(4,860)
Deferred tax relating to changes in recognition and measurement	(0.12)	(4,894)	(0.06)	(2,692)	—	(100)
Income tax refund for tax of prior years	(0.12)	(4,854)	(0.19)	(8,135)	(0.20)	(9,105)
Income tax expense of overseas branch	0.04	1,549	0.09	3,882	0.11	5,004
Effects from change in tax rate . . .	0.42	17,367	(0.03)	(1,470)	—	—
Others	(0.24)	(10,029)	1.12	48,156	(0.03)	(1,494)
Average effective tax rate and tax expense	<u>19.21</u>	<u>₩ 794,963</u>	<u>28.82</u>	<u>₩1,239,586</u>	<u>26.93</u>	<u>₩1,220,787</u>

¹ Applicable income tax rate for ₩200 million and below is 11%, for over ₩200 million to ₩20 billion is 22%, and for over ₩20 billion to ₩300 billion is 24.2%, for over ₩300 billion is 27.5% as at December 31, 2018 and 2019.

34. Dividends

The dividends paid to the shareholders of the Parent Company in 2018 and 2019 were ₩ 766,728 million (₩ 1,920 per share) and ₩ 759,736 million (₩ 1,920 per share), respectively. The dividends to the shareholders in respect of the year ended December 31, 2019 of ₩ 2,210 per share, amounting to total dividends of ₩ 861,092 million were declared at the annual general meeting on March 20, 2020. The Group's financial statements as of December 31, 2019, do not reflect this dividend payable.

35. Accumulated Other Comprehensive Income

Details of changes in accumulated other comprehensive income for the years ended December 31, 2018 and 2019, are as follows:

	2018					
	<u>Beginning¹</u>	<u>Changes except for reclassification</u>	<u>Reclassification to profit or loss</u>	<u>Replaced by retained earnings</u>	<u>Tax effect</u>	<u>Ending</u>
	(In millions of Korean won)					
Remeasurements of net defined benefit liabilities	₩(96,385)	₩ (190,393)	₩ —	₩ —	₩ 52,377	₩(234,401)
Exchange differences on translating foreign operations	(54,700)	46,946	15,057	—	(13,087)	(5,784)
Other comprehensive income related with financial assets at fair value through other comprehensive income . . .	362,681	134,198	8,521	(21,377)	(33,329)	450,694
Other comprehensive income related with investments in associates and joint ventures	(644)	(5,107)	—	—	1,374	(4,377)
Cash flow hedges	14,887	(24,672)	15,234	—	400	5,849
Hedges of a net investment in a foreign operation	(5,958)	(25,096)	(12,330)	—	10,292	(33,092)
Other comprehensive income related with separate account assets	(13,692)	35,826	3,747	—	(10,864)	15,017
Profit or loss related with credit risk change of Financial liabilities designated at fair value through profit or loss	(10,438)	2,047	—	—	(563)	(8,954)
Net overlay adjustment	(7,559)	24,458	(23,161)	—	(884)	(7,146)
Total	₩188,192	₩ (1,793)	₩ 7,068	₩(21,377)	₩ 5,716	₩ 177,806

¹ Prepared in accordance with IFRS 9

2019

	<u>Beginning</u>	<u>Changes except for reclassification</u>	<u>Reclassification to profit or loss</u>	<u>Replaced by retained earnings</u>	<u>Tax effect</u>	<u>Ending</u>
	(In millions of Korean won)					
Remeasurements of net defined benefit liabilities	₩(234,401)	₩ (76,999)	₩ —	₩ —	₩ 21,172	₩(290,228)
Exchange differences on translating foreign operations	(5,784)	37,938	5,353	—	(5,714)	31,793
Other comprehensive income related with financial assets at fair value through other comprehensive income . . .	450,694	106,984	(82,662)	25,483	(13,168)	487,331
Other comprehensive income related with investments in associates and joint ventures	(4,377)	10,842	—	—	(3,147)	3,318
Cash flow hedges	5,849	(65,323)	21,604	—	10,537	(27,333)
Hedges of a net investment in a foreign operation	(33,092)	(13,410)	1,316	—	3,194	(41,992)
Other comprehensive income related with separate account assets . . .	15,017	21,029	(16,364)	—	(1,301)	18,381
Profit or loss related with credit risk change of Financial liabilities designated at fair value through profit or loss	(8,954)	(15,666)	—	—	4,294	(20,326)
Net overlay adjustment	(7,146)	269,643	(2,603)	—	(72,817)	187,077
Total	<u>₩ 177,806</u>	<u>₩ 275,038</u>	<u>₩ (73,356)</u>	<u>₩ 25,483</u>	<u>₩(56,950)</u>	<u>₩ 348,021</u>

36. Earnings per Share

36.1 Basic Earnings Per Share

Basic earnings per share is calculated by dividing profit and loss attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, excluding the treasury shares, during the years ended December 31, 2017, 2018 and 2019.

Weighted average number of ordinary shares outstanding:

	2017		2018		2019 ¹	
	Number of shares	Accumulated amount	(in number of shares) Number of shares	Accumulated amount	Number of shares	Accumulated amount
Number of issued ordinary shares	418,111,537	152,610,711,005	418,111,537	152,610,711,005	415,807,920	152,564,638,665
Number of treasury shares	(19,147,923)	(7,076,099,790)	(22,560,240)	(7,888,226,378)	(26,173,585)	(9,801,574,522)
Number of ordinary shares outstanding	398,963,614	145,534,611,215	395,551,297	144,722,484,627	389,634,335	142,763,064,143
Number of days		365		365		365
Weighted average number of ordinary shares outstanding		398,724,962		396,499,958		391,131,683

¹ Initial date of treasury stock that was deducted by the retirement is December 12, 2019.

Basic earnings per share:

	2017	2018	2019
	(in Korean won and in number of shares)		
Profit attributable to shareholders of the Parent Company	₩3,311,437,880,186	₩3,061,191,387,929	₩3,311,827,412,557
Deduction: Dividends on hybrid securities	—	—	6,512,500,000
Profit attributable to the ordinary equity holders of the Parent Company (A)	₩3,311,437,880,186	₩3,061,191,387,929	₩3,305,314,912,557
Weighted average number of ordinary shares outstanding (B)	398,724,962	396,499,958	391,131,683
Basic earnings per share (C = A / B)	₩ 8,305	₩ 7,721	₩ 8,451

36.2 Diluted Earnings per Share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group's dilutive potential ordinary shares include Stock Grants.

A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Group's outstanding shares for the year) based on the monetary value of Stock Grants. The number of shares calculated above is compared with the number of shares that would have been issued assuming the settlement of Stock Grants.

Adjusted profit for diluted earnings per share for the years ended December 31, 2017, 2018 and 2019, are as follows:

	<u>2017</u>	<u>2018</u>	<u>2019</u>
	(In Korean won)		
Profit attributable to the ordinary equity holders of the Parent Company	₩3,311,437,880,186	₩3,061,191,387,929	₩3,305,314,912,557
Adjustment	—	—	—
Adjusted profit for diluted earnings per share	<u>₩3,311,437,880,186</u>	<u>₩3,061,191,387,929</u>	<u>₩3,305,314,912,557</u>

Adjusted weighted average number of ordinary shares outstanding to calculate diluted earnings per share for the years ended December 31, 2017, 2018 and 2019, are as follows:

	<u>2017</u>	<u>2018</u>	<u>2019</u>
	(in number of shares)		
Weighted average number of ordinary shares outstanding	398,724,962	396,499,958	391,131,683
Adjustment:			
Stock Grants	2,319,533	2,307,630	2,890,513
Adjusted weighted average number of ordinary shares outstanding for diluted earnings per share	401,044,495	398,807,588	394,022,196

Diluted earnings per share for the years ended December 31, 2017, 2018 and 2019, are as follows:

	<u>2017</u>	<u>2018</u>	<u>2019</u>
	(in Korean won and in number of shares)		
Adjusted profit for diluted earnings per share	₩3,311,437,880,186	₩3,061,191,387,929	₩3,305,314,912,557
Adjusted weighted average number of ordinary shares outstanding for diluted earnings per share	401,044,495	398,807,588	394,022,196
Diluted earnings per share	₩ 8,257	₩ 7,676	₩ 8,389

37. Insurance Contracts

37.1 Insurance Assets

Details of deferred acquisition costs included in other assets as of December 31, 2018 and 2019, are as follows:

	<u>2018</u>	<u>2019</u>
	(In millions of Korean won)	
Non-life insurance	₩547,831	₩786,626
Life insurance	119,293	134,739
Total	<u>₩667,124</u>	<u>₩921,365</u>

Changes in the deferred acquisition costs for the years ended December 31, 2018 and 2019, are as follows:

	2018			
	Beginning	Increase	Decrease	Ending
	(In millions of Korean won)			
Non-life insurance	₩267,602	₩772,650	₩(492,421)	₩547,831
Life insurance	130,393	102,552	(113,652)	119,293
Total	<u>₩397,995</u>	<u>₩875,202</u>	<u>₩(606,073)</u>	<u>₩667,124</u>
	2019			
	Beginning	Increase	Decrease	Ending
	(In millions of Korean won)			
Non-life insurance	₩547,831	₩815,712	₩(576,917)	₩786,626
Life insurance	119,293	117,808	(102,362)	134,739
Total	<u>₩667,124</u>	<u>₩933,520</u>	<u>₩(679,279)</u>	<u>₩921,365</u>

Details of reinsurance assets included in other assets as of December 31, 2018 and 2019, are as follows:

		2018	2019
		(In millions of Korean won)	
Non-life insurance	Reserve for outstanding claims		
	General insurance	₩ 360,997	₩ 361,065
	Automobile insurance	18,057	16,555
	Long-term insurance	109,751	130,758
	Unearned premium reserve		
	General insurance	171,240	208,820
	Automobile insurance	30,864	19,952
	Sub-total	<u>690,909</u>	<u>737,150</u>
Life insurance	Reserve for outstanding claims	1,912	1,639
	Unearned premium reserve	448	408
	Sub-total	<u>2,360</u>	<u>2,047</u>
Others	Reserve for outstanding claims	3,417	2,563
	Unearned premium reserve	983	844
	Sub-total	<u>4,400</u>	<u>3,407</u>
Total reinsurance assets		697,669	742,604
Allowance for impairment		1,916	1,953
Total reinsurance assets, net		<u>₩ 695,753</u>	<u>₩ 740,651</u>

The changes in reinsurance assets included in other assets as of December 31, 2018 and 2019, are as follows:

		2018		
		<u>Beginning</u>	<u>Net increase (decrease)</u>	<u>Ending</u>
		(In millions of Korean won)		
Non-life insurance	Reserve for outstanding claims			
	General insurance	₩480,760	₩(119,763)	₩360,997
	Automobile insurance	13,320	4,737	18,057
	Long-term insurance	89,317	20,434	109,751
	Unearned premium reserve			
	General insurance	178,586	(7,346)	171,240
	Automobile insurance	14,986	15,878	30,864
	Sub-total	<u>776,969</u>	<u>(86,060)</u>	<u>690,909</u>
Life insurance	Reserve for outstanding claims	1,410	502	1,912
	Unearned premium reserve	490	(42)	448
	Sub-total	<u>1,900</u>	<u>460</u>	<u>2,360</u>
Others	Reserve for outstanding claims	3,670	(253)	3,417
	Unearned premium reserve	1,075	(92)	983
	Sub-total	<u>4,745</u>	<u>(345)</u>	<u>4,400</u>
Total reinsurance assets		783,614	(85,945)	697,669
Allowance for impairment		629	1,287	1,916
Total reinsurance assets, net		<u>₩782,985</u>	<u>₩ (87,232)</u>	<u>₩695,753</u>
		2019		
		<u>Beginning</u>	<u>Net increase (decrease)</u>	<u>Ending</u>
		(In millions of Korean won)		
Non-life insurance	Reserve for outstanding claims			
	General insurance	₩360,997	₩ 68	₩361,065
	Automobile insurance	18,057	(1,502)	16,555
	Long-term insurance	109,751	21,007	130,758
	Unearned premium reserve			
	General insurance	171,240	37,580	208,820
	Automobile insurance	30,864	(10,912)	19,952
	Sub-total	<u>690,909</u>	<u>46,241</u>	<u>737,150</u>
Life insurance	Reserve for outstanding claims	1,912	(273)	1,639
	Unearned premium reserve	448	(40)	408
	Sub-total	<u>2,360</u>	<u>(313)</u>	<u>2,047</u>
Others	Reserve for outstanding claims	3,417	(854)	2,563
	Unearned premium reserve	983	(139)	844
	Sub-total	<u>4,400</u>	<u>(993)</u>	<u>3,407</u>
Total reinsurance assets		697,669	44,935	742,604
Allowance for impairment		1,916	37	1,953
Total reinsurance assets, net		<u>₩695,753</u>	<u>₩ 44,898</u>	<u>₩740,651</u>

37.2 Insurance Liabilities

Details of insurance liabilities as of December 31, 2018 and 2019 are as follows:

	2018			Total
	Non-life insurance	Life insurance	Others	
	(In millions of Korean won)			
Long-term insurance premium reserve	₩22,333,503	₩7,214,765	₩ —	₩29,548,268
Reserve for outstanding claims	2,152,018	89,400	3,417	2,244,835
Unearned premium reserve	1,393,570	2,199	983	1,396,752
Reserve for participating policyholders' dividends on long-term insurance	104,461	30,187	—	134,648
Unallocated Divisible Surplus to Future Policyholders	40,690	4,290	—	44,980
Reserve for compensation for losses on dividend-paying insurance contracts	19,410	5,644	—	25,054
Guarantee reserve	—	18,412	—	18,412
Total	<u>₩26,043,652</u>	<u>₩7,364,897</u>	<u>₩4,400</u>	<u>₩33,412,949</u>
	2019			
	(In millions of Korean won)			
Long-term insurance premium reserve	₩23,799,607	₩6,991,247	₩ —	₩30,790,854
Reserve for outstanding claims	2,297,256	101,690	2,563	2,401,509
Unearned premium reserve	1,522,827	4,603	845	1,528,275
Reserve for participating policyholders' dividends on long-term insurance	117,094	29,745	—	146,839
Unallocated Divisible Surplus to Future Policyholders	46,901	4,202	—	51,103
Reserve for compensation for losses on dividend-paying insurance contracts	20,090	5,784	—	25,874
Guarantee reserve	—	22,229	—	22,229
Total	<u>₩27,803,775</u>	<u>₩7,159,500</u>	<u>₩3,408</u>	<u>₩34,966,683</u>

The changes in insurance liabilities for the years ended December 31, 2018 and 2019, are as follows:

		2018		
		Beginning	Net increase (decrease)²	Ending
		(In millions of Korean won)		
Non-life insurance	General insurance	₩ 1,194,260	₩ (139,437)	₩ 1,054,823
	Automobile insurance	1,477,569	14,725	1,492,294
	Long-term insurance	21,598,125	1,788,154	23,386,279
	Long-term investment contract	112,509	(2,253)	110,256
Life insurance	Pure endowment insurance	5,249,627	(16,136)	5,233,491
	Death insurance	366,303	134,268	500,571
	Joint insurance	1,782,885	(161,425)	1,621,460
	Group insurance	1,069	(334)	735
	Other ¹	14,183	(5,543)	8,640
Others	4,745	(345)	4,400	
Total		₩31,801,275	₩1,611,674	₩33,412,949
		2019		
		Beginning	Net increase (decrease)²	Ending
		(In millions of Korean won)		
Non-life insurance	General insurance	₩ 1,054,823	₩ 10,090	₩ 1,064,913
	Automobile insurance	1,492,294	131,552	1,623,846
	Long-term insurance	23,386,279	1,619,799	25,006,078
	Long-term investment contract	110,256	(1,318)	108,938
Life insurance	Pure endowment insurance	5,233,491	2,637	5,236,128
	Death insurance	500,571	142,392	642,963
	Joint insurance	1,621,460	(350,605)	1,270,855
	Group insurance	735	(211)	524
	Other ¹	8,640	391	9,031
Others	4,400	(993)	3,407	
Total		₩33,412,949	₩1,553,734	₩34,966,683

¹ Including policyholder's profit dividend reserve and reserve for compensation for losses on dividend-paying insurance contract

² Including currency translation effect and decrease in liability related to investment contract

37.3 Liability adequacy test

37.3.1 Non-life insurance

(a) Assumptions and basis for the insurance liability adequacy test as of December 31, 2018 and 2019, is as follows:

	Assumptions (%)		Basis
	2018	2019	
Long-term insurance			
Discount rate	0.55~7.32	2.47 ~10.55	Applied risk-free rate curve plus liquidity premium presented by Financial Supervisory Service
Expense ratio	6.43	6.60	Reflected future expense plan based on the most recent one-year data
Lapse ratio	1.50~31.40	1.51~34.13	Based on the most recent five-year data
Risk rate	9.0~724.0	13.1~1037.3	The rate of insurance claim payments to risk premiums based on historical data for the latest seven years
General insurance			
Expense ratio	10.42	11.38	Ratio of maintenance costs incurred to earned premiums by the types of contracts for the most recent year
Loss adjustment expense ratio . . .	4.63	4.54	Ratio of loss adjustment expenses incurred to insurance claim payments by the type of contracts within for the most recent three years
Claim settlement ratio	63.77	64.95	Ratio of insurance claims incurred to earned premiums by the type of contracts for the most recent five years
Automobile insurance			
Expense ratio	10.11	9.94	Ratio of maintenance costs incurred to earned premiums by the type of collaterals for the most recent year
Loss adjustment expense ratio . . .	9.09	8.84	Ratio of loss adjustment expenses incurred to insurance claims paid by the type of collaterals for the most recent three years
Claim settlement ratio	77.51	78.44	Ratio of insurance claims incurred to earned premiums by the type of collaterals for the most recent five years

The results of liability adequacy test as of December 31, 2018 and 2019, are as follows:

	2018		
	Recognized liabilities ¹	Estimated adequate liabilities	Shortfall(surplus)
	(In millions of Korean won)		
General insurance	₩ 341,439	₩ 279,756	₩ (61,683)
Automobile insurance	1,020,861	967,236	(53,625)
Long-term insurance	18,419,316	7,471,174	(10,948,142)
Total	₩ 19,781,616	₩ 8,718,166	₩ (11,063,450)

	2019		
	Recognized liabilities ¹	Estimated adequate liabilities	Shortfall(surplus)
	(In millions of Korean won)		
General insurance	₩ 365,234	₩ 296,800	₩ (68,434)
Automobile insurance	1,123,450	1,071,076	(52,374)
Long-term insurance	19,743,658	9,741,865	(10,001,793)
Total	₩ 21,232,342	₩ 11,109,741	₩ (10,122,601)

¹ Long-term insurance is subject to premium reserves and unearned premium reserve, and the premium reserve is the premium reserve calculated based on the net premium method, deducting unamortized acquisition costs and insurance contract loans in accordance with Article 6-3 of the Insurance Supervisory Regulation.

As a result of adequacy test, the Group did not set additional reserve as it shows net surplus. As such, there was no amount recorded as a result of liability adequacy test.

37.3.2 Life insurance

Assumptions and basis for the insurance liability adequacy test as of December 31, 2018 and 2019, are as follows:

	Assumptions(%)		Basis
	2018	2019	
Surrender rate	0~64.95	0~65.39	The ratio of cancelled premiums to premiums by product group, method of payment, channel, and elapsed period calculated based on the most recent five-year experience statistics
Rate of claim	8~122	11~132	The ratio of incidents by collateral, gender, elapsed period to the number of holding insurances based on the most recent seven-year experience statistics
Discount rate	(1.82)~13.71	(2.61)~15.53	Estimated investment assets profit ratio based on the interest rate scenario provided by the Financial Supervisory Service

Indirect costs included in commission and operating expenses were calculated based on unit cost of the expense allocation standards of the last year in accordance with the Regulation on Insurance Supervision. Direct costs included in commission and operating expenses were calculated based on estimates of future expense according to the Group's regulations.

The results of liability adequacy test as of December 31, 2018 and 2019, are as follows:

	2018		
	Recognized liabilities	Estimated adequate liabilities	Shortfall(surplus)
	(In millions of Korean won)		
Fixed interest rate type	Participating	₩ 30,571	₩ 54,157
	Non-participating	133,784	92,856
Variable interest rate type	Participating	1,087,049	1,088,218
	Non-participating	5,544,265	5,052,604
Variable type		(31,235)	(119,511)
Total		₩ 6,764,434	₩ 6,168,324
			₩ (596,110)

		2019		
		Recognized liabilities	Estimated adequate liabilities	Shortfall(surplus)
		(In millions of Korean won)		
Fixed interest rate type	Participating	₩ 30,514	₩ 55,118	₩ 24,604
	Non-participating	180,058	43,196	(136,862)
Variable interest rate type	Participating	1,037,148	1,056,841	19,693
	Non-participating	5,335,572	4,966,835	(368,737)
Variable type		(36,500)	(148,878)	(112,378)
Total		₩ 6,546,792	₩ 5,973,112	₩ (573,680)

As a result of adequacy test, the Group did not set additional reserve as it shows net surplus. As such, there was no amount recorded as a result of liability adequacy test.

37.4 Insurance Income and Expenses

Insurance income and expenses for the years ended December 31, 2017, 2018 and 2019, are as follows:

		2017	2018	2019	
		(In millions of Korean won)			
Insurance income	Premium income	₩8,234,731	₩10,730,227	₩11,173,367	
	Reinsurance income	564,894	873,053	850,871	
	Reversal of policy reserves	—	344	993	
	Separate account income	118,080	360,664	216,429	
	Gain on change in reinsurance assets	49,466	—	42,432	
	Other insurance income	3,821	10,782	33,090	
	Sub-total	8,970,992	11,975,070	12,317,182	
	Insurance expenses	Insurance claims paid	2,945,158	4,415,760	5,046,772
		Dividend expenses	6,233	9,400	9,902
		Refunds of surrender value	2,193,843	2,855,573	2,870,543
Reinsurance expenses		652,910	947,560	1,018,007	
Provision of policy reserves		1,644,389	1,608,519	1,547,264	
Separate account expenses		65,773	276,412	139,810	
Insurance operating expenses		293,591	418,646	453,016	
Deferred acquisition costs		361,909	606,073	679,279	
Loss on change in reinsurance assets		(126)	89,621	314	
Claim survey expenses paid		20,564	38,782	52,123	
Other insurance expenses	193,038	218,608	200,640		
Sub-total	8,377,282	11,484,954	12,017,670		
Net insurance income		₩ 593,710	₩ 490,116	₩ 299,512	

37.5 Risk management of non-life insurance

37.5.1 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 Group unable to cover the actual claims payment in the future.

37.5.2 Purposes, policies and procedures to manage risk arising from insurance contracts

The risks associated with insurance contract that the Group 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 Group establishes guidelines and procedure for acceptance and outlines 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 various subsequent measures such as the adjustments in the interest rate and sales conditions, termination of selling specific product and others are taken in order to reduce insurance actuarial risk. The Group 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 Group establishes an operating strategy of reinsurance for large claims expense due to unexpected catastrophic events. The Group aims at policy holders' safety and its stable profit achievement. For the long-term goal, the Group manages risk at a comprehensive level to keep its value at the maximum.

37.5.3 Exposure to insurance price risk

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

The Group's exposure to insurance price risk as of December 31, 2018 and 2019 as follows:

	2018			Total
	Direct insurance	Inward reinsurance	Outward reinsurance	
	(In millions of Korean won)			
General	₩ 943,770	₩ 91,440	₩(526,026)	₩ 509,184
Automobile	1,940,602	—	(63,720)	1,876,882
Long-term	2,285,378	—	(326,337)	1,959,041
Total	<u>₩5,169,750</u>	<u>₩ 91,440</u>	<u>₩(916,083)</u>	<u>₩4,345,107</u>
	2019			
	Direct insurance	Inward reinsurance	Outward reinsurance	Total
	(In millions of Korean won)			
General	₩ 999,348	₩101,613	₩(579,922)	₩ 521,039
Automobile	2,101,780	—	(40,067)	2,061,713
Long-term	2,550,236	—	(367,904)	2,182,332
Total	<u>₩5,651,364</u>	<u>₩101,613</u>	<u>₩(987,893)</u>	<u>₩4,765,084</u>

37.5.4 Concentration of Insurance risk

The Group 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 Group'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 Group controls the risk through joint acquisition.

Loss development tables

The Group 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 Group establishes additional reserves. Loss development tables as of December 31, 2018 and 2019 are as follows:

<2018>

General Insurance

Accident year	Payment year				
	After 1 year	After 2 years	After 3 years	After 4 years	After 5 years
(In millions of Korean won)					
Estimate of gross ultimate claims (A)					
2014.1.1~2014.12.31	₩127,903	₩ 144,915	₩ 146,430	₩ 146,533	₩ 146,508
2015.1.1~2015.12.31	125,170	145,637	148,165	151,594	—
2016.1.1~2016.12.31	145,618	168,119	171,506	—	—
2017.1.1~2017.12.31	168,409	201,100	—	—	—
2018.1.1~2018.12.31	201,014	—	—	—	—
	<u>768,114</u>	<u>659,771</u>	<u>466,101</u>	<u>298,127</u>	<u>146,508</u>
Gross cumulative claim payments (B)					
2014.1.1~2014.12.31	94,901	129,652	136,689	141,170	142,217
2015.1.1~2015.12.31	93,443	130,430	137,854	142,645	—
2016.1.1~2016.12.31	108,098	151,583	162,360	—	—
2017.1.1~2017.12.31	132,430	184,716	—	—	—
2018.1.1~2018.12.31	153,770	—	—	—	—
	<u>582,642</u>	<u>596,381</u>	<u>436,903</u>	<u>283,815</u>	<u>142,217</u>
Difference (A-B)	<u>₩185,472</u>	<u>₩ 63,390</u>	<u>₩ 29,198</u>	<u>₩ 14,312</u>	<u>₩ 4,291</u>

Automobile Insurance

Accident year	Payment year						
	After 1 year	After 2 years	After 3 years	After 4 years	After 5 years	After 6 years	After 7 years
(In millions of Korean won)							
Estimate of gross ultimate claims (A)							
2012.1.1~2012.12.31	₩ 1,117,650	₩ 1,146,779	₩ 1,155,529	₩ 1,162,075	₩ 1,164,774	₩ 1,166,470	₩ 1,165,352
2013.1.1~2013.12.31	1,131,945	1,156,535	1,170,968	1,179,458	1,179,323	1,179,514	—
2014.1.1~2014.12.31	1,174,611	1,193,832	1,205,524	1,212,025	1,212,162	—	—
2015.1.1~2015.12.31	1,227,106	1,245,780	1,256,058	1,263,044	—	—	—
2016.1.1~2016.12.31	1,276,939	1,281,381	1,287,728	—	—	—	—
2017.1.1~2017.12.31	1,342,998	1,348,828	—	—	—	—	—
2018.1.1~2018.12.31	1,468,784	—	—	—	—	—	—
	8,740,033	7,373,135	6,075,807	4,816,602	3,556,259	2,345,984	1,165,352
Gross cumulative claim payments (B)							
2012.1.1~2012.12.31	939,239	1,105,672	1,135,064	1,149,585	1,156,150	1,159,614	1,160,769
2013.1.1~2013.12.31	939,569	1,114,063	1,145,110	1,161,624	1,168,617	1,175,681	—
2014.1.1~2014.12.31	969,211	1,150,462	1,180,953	1,196,387	1,204,580	—	—
2015.1.1~2015.12.31	1,020,975	1,198,241	1,228,357	1,245,779	—	—	—
2016.1.1~2016.12.31	1,052,830	1,235,656	1,264,651	—	—	—	—
2017.1.1~2017.12.31	1,104,158	1,306,235	—	—	—	—	—
2018.1.1~2018.12.31	1,224,820	—	—	—	—	—	—
	7,250,802	7,110,329	5,954,135	4,753,375	3,529,347	2,335,295	1,160,769
Difference (A-B)	₩ 1,489,231	₩ 262,806	₩ 121,672	₩ 63,227	₩ 26,912	₩ 10,689	₩ 4,583

Long-term Insurance

Accident year	Payment year				
	After 1 year	After 2 years	After 3 years	After 4 years	After 5 years
(In millions of Korean won)					
Estimate of ultimate claims (A)					
2014.1.1~2014.12.31	₩ 789,087	₩ 1,083,048	₩ 1,114,821	₩ 1,119,206	₩ 1,122,192
2015.1.1~2015.12.31	885,476	1,219,393	1,256,051	1,266,881	—
2016.1.1~2016.12.31	1,064,744	1,437,573	1,485,839	—	—
2017.1.1~2017.12.31	1,184,224	1,614,903	—	—	—
2018.1.1~2018.12.31	1,372,706	—	—	—	—
	5,296,237	5,354,917	3,856,711	2,386,087	1,122,192
Gross cumulative claim payments (B)					
2014.1.1~2014.12.31	744,944	1,065,792	1,104,468	1,114,341	1,119,531
2015.1.1~2015.12.31	836,471	1,205,130	1,248,475	1,262,528	—
2016.1.1~2016.12.31	1,017,243	1,424,948	1,477,415	—	—
2017.1.1~2017.12.31	1,130,868	1,599,227	—	—	—
2018.1.1~2018.12.31	1,319,613	—	—	—	—
	5,049,139	5,295,097	3,830,358	2,376,869	1,119,531
Difference (A-B)	₩ 247,098	₩ 59,820	₩ 26,353	₩ 9,218	₩ 2,661

<2019>

General Insurance

Accident year	Payment year				
	After 1 year	After 2 years	After 3 years	After 4 years	After 5 years
(In millions of Korean won)					
Estimate of gross ultimate claims (A)					
2015.1.1~2015.12.31	₩125,161	₩ 144,565	₩ 147,031	₩ 147,616	₩ 148,995
2016.1.1~2016.12.31	145,618	167,818	171,205	178,265	—
2017.1.1~2017.12.31	168,409	200,704	204,538	—	—
2018.1.1~2018.12.31	200,280	237,111	—	—	—
2019.1.1~2019.12.31	220,474	—	—	—	—
	<u>859,942</u>	<u>750,198</u>	<u>522,774</u>	<u>325,881</u>	<u>148,995</u>
Gross cumulative claim payments (B)					
2015.1.1~2015.12.31	93,443	129,765	137,157	141,218	143,985
2016.1.1~2016.12.31	108,098	151,283	162,059	170,353	—
2017.1.1~2017.12.31	132,430	184,333	193,811	—	—
2018.1.1~2018.12.31	153,770	216,705	—	—	—
2019.1.1~2019.12.31	185,832	—	—	—	—
	<u>673,573</u>	<u>682,086</u>	<u>493,027</u>	<u>311,571</u>	<u>143,985</u>
Difference (A-B)	<u>₩186,369</u>	<u>₩ 68,112</u>	<u>₩ 29,747</u>	<u>₩ 14,310</u>	<u>₩ 5,010</u>

Automobile Insurance

Accident year	Payment year						
	After 1 year	After 2 years	After 3 years	After 4 years	After 5 years	After 6 years	After 7 years
(In millions of Korean won)							
Estimate of gross ultimate claims (A)							
2013.1.1~2013.12.31	₩ 1,131,945	₩ 1,156,535	₩ 1,170,968	₩ 1,179,458	₩ 1,179,323	₩ 1,179,514	₩ 1,180,458
2014.1.1~2014.12.31	1,174,611	1,193,832	1,205,524	1,212,025	1,212,162	1,214,524	—
2015.1.1~2015.12.31	1,227,106	1,245,780	1,256,058	1,263,044	1,267,142	—	—
2016.1.1~2016.12.31	1,276,939	1,281,381	1,287,728	1,294,735	—	—	—
2017.1.1~2017.12.31	1,342,998	1,348,828	1,358,867	—	—	—	—
2018.1.1~2018.12.31	1,468,784	1,471,807	—	—	—	—	—
2019.1.1~2019.12.31	1,591,793	—	—	—	—	—	—
	<u>9,214,176</u>	<u>7,698,163</u>	<u>6,279,145</u>	<u>4,949,262</u>	<u>3,658,627</u>	<u>2,394,038</u>	<u>1,180,458</u>
Gross cumulative claim payments (B)							
2013.1.1~2013.12.31	939,569	1,114,063	1,145,110	1,161,624	1,168,617	1,175,681	1,178,158
2014.1.1~2014.12.31	969,211	1,150,462	1,180,953	1,196,387	1,204,580	1,208,421	—
2015.1.1~2015.12.31	1,020,975	1,198,241	1,228,357	1,245,779	1,254,187	—	—
2016.1.1~2016.12.31	1,052,830	1,235,656	1,264,651	1,282,346	—	—	—
2017.1.1~2017.12.31	1,104,158	1,306,235	1,335,962	—	—	—	—
2018.1.1~2018.12.31	1,224,820	1,428,973	—	—	—	—	—
2019.1.1~2019.12.31	1,332,849	—	—	—	—	—	—
	<u>7,644,412</u>	<u>7,433,630</u>	<u>6,155,033</u>	<u>4,886,136</u>	<u>3,627,384</u>	<u>2,384,102</u>	<u>1,178,158</u>
Difference (A-B)	<u>₩ 1,569,764</u>	<u>₩ 264,533</u>	<u>₩ 124,112</u>	<u>₩ 63,126</u>	<u>₩ 31,243</u>	<u>₩ 9,936</u>	<u>₩ 2,300</u>

Long-term Insurance

Accident year	Payment year						
	After 1 year	After 2 years	After 3 years	After 4 years	After 5 years	After 6 years	After 7 years
(In millions of Korean won)							
Estimate of gross ultimate claims (A)							
2013.1.1~2013.12.31	₩ 709,602	₩ 965,587	₩ 997,607	₩1,003,646	₩1,006,025	₩1,007,041	₩1,008,589
2014.1.1~2014.12.31	789,087	1,083,048	1,114,821	1,119,206	1,122,192	1,123,240	—
2015.1.1~2015.12.31	885,476	1,219,393	1,256,051	1,266,881	1,270,967	—	—
2016.1.1~2016.12.31	1,064,744	1,437,573	1,485,839	1,500,403	—	—	—
2017.1.1~2017.12.31	1,184,224	1,614,903	1,670,929	—	—	—	—
2018.1.1~2018.12.31	1,372,706	1,881,046	—	—	—	—	—
2019.1.1~2019.12.31	1,626,481	—	—	—	—	—	—
	<u>7,632,320</u>	<u>8,201,550</u>	<u>6,525,247</u>	<u>4,890,136</u>	<u>3,399,184</u>	<u>2,130,281</u>	<u>1,008,589</u>
Gross cumulative claim payments(B)							
2013.1.1~2013.12.31	671,500	953,494	989,957	999,944	1,003,715	1,005,796	1,007,865
2014.1.1~2014.12.31	744,944	1,065,792	1,104,468	1,114,341	1,119,531	1,122,378	—
2015.1.1~2015.12.31	836,471	1,205,130	1,248,475	1,262,528	1,269,557	—	—
2016.1.1~2016.12.31	1,017,243	1,424,948	1,477,415	1,496,556	—	—	—
2017.1.1~2017.12.31	1,130,868	1,599,227	1,662,978	—	—	—	—
2018.1.1~2018.12.31	1,319,613	1,868,434	—	—	—	—	—
2019.1.1~2019.12.31	1,574,696	—	—	—	—	—	—
	<u>7,295,335</u>	<u>8,117,025</u>	<u>6,483,293</u>	<u>4,873,369</u>	<u>3,392,803</u>	<u>2,128,174</u>	<u>1,007,865</u>
Difference (A-B)	<u>₩ 336,985</u>	<u>₩ 84,525</u>	<u>₩ 41,954</u>	<u>₩ 16,767</u>	<u>₩ 6,381</u>	<u>₩ 2,107</u>	<u>₩ 724</u>

37.5.5 Sensitivity analysis of insurance risk

The Group 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 equity and net profit before tax.

	Assumption change	2018
		Effect on estimated adequate liabilities under liability adequacy test
(In millions of Korean won)		
Surrenders and termination rates	+10%	₩ 599,778
	-10%	(658,755)
Loss ratio	+10%	4,348,655
	-10%	(4,348,655)
Insurance operating expenses ratio	+10%	347,179
	-10%	(347,179)
Discount rate	+0.5%	(1,295,369)
	-0.5%	1,554,782

	Assumption change	2019
		Effect on estimated adequate liabilities under liability adequacy test
(In millions of Korean won)		
Surrenders and termination rates	+10%	₩ 488,191
	-10%	(541,208)
Loss ratio	+10%	4,319,256
	-10%	(4,319,256)
Insurance operating expenses ratio	+10%	326,915
	-10%	(326,915)
Discount rate	+0.5%	(1,426,729)
	-0.5%	1,732,166

37.5.6 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 Group manages payment of refunds payable at maturity by analyzing maturity of insurance.

Premium reserve's maturity structure as of December 31, 2018 and 2019, as follows:

	2018 ¹					Total
	Within 1 year	1~5 years	5~10 years	10~20 years	More 20 years	
(In millions of Korean won)						
Non-participating long-term insurance						
Fixed interest rate	₩ 27,477	₩ 301,842	₩ 94,503	₩ 41,129	₩ 95,851	₩ 560,802
Variable interest rate	419,874	2,774,991	2,169,861	726,859	11,900,385	17,991,970
Sub-total	447,351	3,076,833	2,264,364	767,988	11,996,236	18,552,772
Annuity						
Fixed interest rate	5	251	2,279	3,736	1,327	7,598
Variable interest rate	200	58,182	339,662	1,176,168	2,194,381	3,768,593
Sub-total	205	58,433	341,941	1,179,904	2,195,708	3,776,191
Asset-linked						
Variable interest rate	—	27,480	—	—	—	27,480
Total						
Fixed interest rate	27,482	302,093	96,782	44,865	97,178	568,400
Variable interest rate	420,074	2,860,653	2,509,523	1,903,027	14,094,766	21,788,043
Total	₩447,556	₩3,162,746	₩2,606,305	₩1,947,892	₩14,191,944	₩22,356,443

¹ Includes long-term investment contract amounting to ₩110,255 million.

	2019 ¹					
	Within 1 year	1~5 years	5~10 years	10~20 years	More 20 years	Total
	(In millions of Korean won)					
Non-participating long-term insurance						
Fixed interest rate	₩ 57,532	₩ 258,436	₩ 84,349	₩ 43,141	₩ 125,622	₩ 569,080
Variable interest rate	527,467	2,578,004	2,085,054	777,340	13,336,668	19,304,533
Sub-total	584,999	2,836,440	2,169,403	820,481	13,462,290	19,873,613
Annuity						
Fixed interest rate	10	543	2,244	3,714	1,075	7,586
Variable interest rate	273	70,180	367,710	1,245,176	2,227,054	3,910,393
Sub-total	283	70,723	369,954	1,248,890	2,228,129	3,917,979
Asset-linked						
Variable interest rate	27,389	—	—	—	—	27,389
Total						
Fixed interest rate	57,542	258,979	86,593	46,855	126,697	576,666
Variable interest rate	555,129	2,648,184	2,452,764	2,022,516	15,563,722	23,242,315
Total	₩612,671	₩2,907,163	₩2,539,357	₩2,069,371	₩15,690,419	₩23,818,981

¹ Includes long-term investment contract amounting to ₩108,938 million.

37.5.7 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 Group cedes insurance contracts to the insurers rated above BBB- of S&P rating.

As of December 31, 2019, there are 153 reinsurance companies that deal with the Group, and the top three reinsurance companies' concentration and credit ratings are as follows:

Reinsurance company	Ratio	Credit rating
KOREAN RE	64.14%	AA
SWISS RE	10.81%	AAA
SCOR RE	2.77%	AAA

Exposures to credit risk related to reinsurance as of December 31, 2018 and 2019 as follows:

	2018	2019
	(In millions of Korean won)	
Reinsurance assets ¹	₩ 688,993	₩ 735,196
Net receivables from reinsurers ²	398,575	328,177
Total	₩1,087,568	₩1,063,373

¹ Net carrying amounts after impairment loss

² Net carrying amounts of after allowance for loan losses

37.5.8 Interest risk of insurance contract

The interest rate risk exposure from the Group'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 unexpected loss. For long-term, non-life insurance contracts, the Group calculates exposure of interest-bearing assets and interest-bearing liabilities. Liabilities exposure is premium reserves less costs of termination deductions plus unearned premium reserve. 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, 2018 and 2019, are as follows:

i) Exposure to interest rate risk

	2018
	(In millions of Korean won)
Liabilities	
Fixed interest rate	₩ 560,471
Variable interest rate	20,332,094
Total	<u>20,892,565</u>
Assets	
Due from financial institutions at amortized cost and cash equivalents	100,701
Financial assets at fair value through profit or loss	4,257,959
Financial assets at fair value through other comprehensive income	2,691,744
Securities at amortized cost	7,718,337
Loans at amortized cost	6,877,139
Total	<u>₩ 21,645,880</u>
	2019
	(In millions of Korean won)
Liabilities	
Fixed interest rate	₩ 534,236
Variable interest rate	21,911,393
Total	<u>22,445,629</u>
Assets	
Due from financial institutions at amortized cost and cash equivalents	108,559
Financial assets at fair value through profit or loss	4,560,512
Financial assets at fair value through other comprehensive income	2,984,738
Securities at amortized cost	8,163,485
Loans at amortized cost	6,924,597
Total	<u>₩ 22,741,891</u>

ii) Measurement and recognition method

Duration is used to measure interest rate risk within risk based solvency test. ALM system 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. Where duration of assets is shorter than that of liabilities with the interest rates fall, the interest risk is increased since the incremental portion of liabilities exceeds that of assets.

iv) Negative spread risk control

In order to manage the reverse margins risk between interest expenses from liabilities and investment incomes on assets, the Group set the disclosure rate every month considering the market interest rate and the managing portfolio's profit ratio.

37.6 Risk management of life insurance

37.6.1 Overview

Insurance risk is the risk of loss arising from the actual risk at the time of claims exceeding the estimated risk at the time of underwriting. Insurance risk is classified by insurance price risk and policy reserve risk.

Insurance price risk is the risk of loss arising from differences between received from policyholders and actual claims paid.

Policy reserve risk is the risk of loss arising from differences between policy reserves the Group holds and actual claims to be paid.

The Group measures only insurance price risk under RBC requirement because life insurance claim payout is mainly in a fixed amount with less volatility in policy reserve and shorter waiting period before payment.

37.6.2 Concentration of insurance risk and reinsurance policy

The Group uses reinsurance to mitigate concentration of insurance risk seeking an enhanced capital management.

The Group categorized reinsurance into group and individual contracts, and reinsurance is ceded through the following process:

- i. In the decision-making process of launching a new product, the Group makes a decision on ceding reinsurance. Subsequently, a reinsurer is selected through bidding, agreements with the relevant departments and final approval by the executive management.
- ii. The reinsurance department analyzes the object of reinsurance, the maximum limit of reinsurance and the loss ratio with the relevant departments.

37.6.3 The characteristic and exposure of insurance price risk

The exposure of insurance price risk is measured by the risk premium for all insurance contracts held for one year prior to the calculation date. The premium for risk retention is calculated by adding direct insurance premium and reinsurance assumed premium, and deducting reinsurance ceded premium (which is paid to reinsurance companies). If the holding risk premium is less than zero, the exposure of the insurance price is measured as zero.

The insurance risk of a life insurance company is measured by insurance price risk. As the life insurance coverage is in the form of a fixed payment, the fluctuation of policy reserve is small and the period from insured event to claims payment is not long. The policy reserve risk is managed by assessments of adequacy of the policy reserve.

The insurance price risk is managed through insurance risk management regulation established by Risk Management Committee.

The maximum exposures to insurance price risk as of December 31, 2018 and 2019, are as follows:

	2018			
	Before reinsurance mitigation		After reinsurance mitigation	
	(In millions of Korean won)			
Death	₩	13,264	₩	6,758
Disability		858		296
Hospitalization		1,287		358
Operation and diagnosis		3,936		1,031
Actual losses for medical expense		1,059		85
Others		1,019		96
Total	₩	21,423	₩	8,624

	2019			
	Before reinsurance mitigation		After reinsurance mitigation	
	(In millions of Korean won)			
Death	₩	12,882	₩	9,033
Disability		754		424
Hospitalization		1,260		642
Operation and diagnosis		4,419		2,211
Actual losses for medical expense		1,053		396
Others		1,066		411
Total	₩	21,434	₩	13,117

Average ratios of claims paid per risk premium received on the basis of exposure before mitigation for the past three years as of December 31, 2018 and 2019, were 67.6 % and 57.8%, respectively.

The exposure of market risk arising from embedded derivatives included in host insurance contracts as of December 31, 2018 and 2019, are as follows:

	2018		2019	
	Policyholders reserve¹	Guarantee reserve	Policyholders reserve¹	Guarantee reserve
	(In millions of Korean won)			
Variable annuity	₩ 359,617	₩ 2,688	₩ 429,970	₩ 2,565
Variable universal	84,783	4,129	91,988	3,095
Variable saving	542,035	396	734,661	516
Total	₩ 986,435	₩ 7,213	₩ 1,256,619	₩ 6,176

¹ Excluding the amount of the lapsed reserve

37.6.4 Assumptions used in measuring insurance liabilities

The Group applies assumed rates defined in the premium and liability reserve calculation manual provided by the regulatory authority and in accordance with the Regulations on Supervision of Insurance Business when measuring insurance liabilities at every reporting period. For interest sensitive insurance, credit rate stated in the premium and liabilities reserve calculation manual, which is calculated based on adjusted external base rate and return rate of asset management according to Article 6-12 of the Regulation on Supervision of Insurance Business.

Reserve amount should exceed the standard reserve which is calculated using the standard interest rate and standard risk rate as required by the Regulation on Supervision of Insurance Business.

37.6.5 Premium reserves and unearned premium reserves residual maturity

Premium reserve's maturity structure as of December 31, 2018 and 2019, as follows:

	2018						Total
	Less than 3 years	3-5 years	5-10 years	10-15 years	15-20 years	20 years or more	
	(In millions of Korean won)						
Premium reserves	₩984,201	₩530,322	₩777,690	₩575,712	₩341,112	₩4,005,728	₩7,214,765

	2019						Total
	Less than 3 years	3-5 years	5-10 years	10-15 years	15-20 years	20 years or more	
	(In millions of Korean won)						
Premium reserves	₩984,945	₩280,733	₩665,241	₩525,699	₩345,664	₩4,188,965	₩6,991,247

37.6.6 Sensitivity analysis of insurance risk

The Group manages insurance risk by performing sensitivity analysis based on surrender rate, rate of claim, expense rate, discount rate and others which are considered to have significant influence on future cash flow, timing and uncertainty.

	Assumption change	2018	
		Effect on estimated adequate liabilities under liability adequacy test	(In millions of Korean won)
Surrender rate	+10%	₩	42,328
	-10%		(47,157)
Rate of claim	+10%		20,223
	-10%		(20,540)
Expense rate	+10%		24,671
	-10%		(24,671)
Discount rate	+10%		(316,446)
	-10%		382,418

	Assumption change	2019	
		Effect on estimated adequate liabilities under liability adequacy test	(In millions of Korean won)
Surrender rate	+10%	₩	50,666
	-10%		(56,115)
Rate of claim	+10%		22,786
	-10%		(23,456)
Expense rate	+10%		31,315
	-10%		(31,315)
Discount rate	+10%		(370,094)
	-10%		424,632

37.7 The Overlay Approach

The Group applied “The Overlay Approach” under IFRS 4 at the initial application of IFRS 9.

Details of financial assets applying “The Overlay Approach” as of December 31, 2018 and 2019, are as follows:

	<u>2018</u>	<u>2019</u>
	(In millions of Korean won)	
Financial assets at fair value through profit or loss		
Cash and due from financial institutions	₩ 172,777	₩ 166,891
Debt securities	7,044,081	7,955,286
Equity securities	81,949	52,250
Total	<u>₩7,298,807</u>	<u>₩8,174,427</u>

Changes of net overlay adjustment for the years ended December 31, 2018 and 2019, are as follows:

	<u>2018²</u>	<u>2019²</u>
	(In millions of Korean won)	
Beginning ¹	₩ (7,559)	₩ (7,146)
Recognition of other comprehensive income due to acquisition and valuation	17,205	196,110
Reclassification to profit or loss due to disposal	(16,792)	(1,887)
Ending	<u>₩ (7,146)</u>	<u>₩187,077</u>

¹ The balance at the beginning of the year ended December 31, 2018 is calculated based on IFRS 9

² Amounts are net of tax

38. Supplemental Cash Flow Information

Cash and cash equivalents as of December 31, 2018 and 2019, are as follows:

	<u>2018</u>	<u>2019</u>
	(In millions of Korean won)	
Cash	₩ 2,186,035	₩ 2,311,418
Checks with other banks	872,166	383,500
Due from Bank of Korea	9,098,891	8,607,911
Due from other financial institutions	8,117,398	9,535,049
Sub-total	<u>20,274,490</u>	<u>20,837,878</u>
Due from financial institutions at fair value through profit or loss	381,718	216,367
	<u>20,656,208</u>	<u>21,054,245</u>
Restricted cash from financial institutions	(12,347,627)	(13,372,966)
Due from financial institutions with original maturities over three months	(1,665,765)	(1,557,554)
Sub-total	<u>(14,013,392)</u>	<u>(14,930,520)</u>
Total	<u>₩ 6,642,816</u>	<u>₩ 6,123,725</u>

Significant non-cash transactions for the years ended December 31, 2017, 2018 and 2019, are as follows:

	2017	2018	2019
	(In millions of Korean won)		
Decrease in loans due to the write-offs	₩ 1,033,056	₩1,079,435	₩1,188,584
Changes in accumulated other comprehensive income due to valuation of financial investments	89,117	—	—
Changes in accumulated other comprehensive income due to valuation of financial investments at fair value through other comprehensive income	—	119,182	35,490
Changes in accumulated other comprehensive income from measurement of investment securities in associates	100,735	(3,733)	7,695
Changes in shares of investment in associate due to KB Insurance Co., Ltd.'s inclusion of the consolidation scope	(1,417,397)	—	—
Changes in other payables due to treasury stock trust agreement, etc.	18,802	6,678	—
Changes in financial instruments due to debt-for-equity swap	10,250	22,286	104,815

Cash inflows and outflows from income tax, interests and dividends for the year December 31, 2017, 2018 and 2019, are as follows:

	Activity	2017	2018	2019
		(In millions of Korean won)		
Income tax paid	Operating	₩ 646,802	₩ 759,013	₩ 1,223,084
Interest received	Operating	11,243,363	13,958,806	14,936,705
Interest paid	Operating	3,444,715	4,369,345	5,365,595
Dividends received	Operating	229,289	235,243	185,846
Dividends paid	Financing	497,969	766,728	766,249

Changes in liabilities arising from financing activities

Changes in liabilities and assets that arising from financing activities for the year ended December 31, 2019 are as follows:

	2019							
	Non-cash changes							
	Beginning	Net cash flows	Acquisition (Disposal)	Changes in foreign exchange rates	Changes in fair value	Subsidiaries	Other changes	Ending
Derivatives held for hedging ¹	₩ 8,049	₩ (28,631)	₩ —	₩ —	₩139,771	₩ —	₩ 67,912	₩ 187,101
Debts	86,283,531	2,537,391	—	397,571	67,297	(602,388)	71,041	88,754,443
Other payables from trust accounts	5,285,108	(68,648)	—	—	—	—	—	5,216,460
Change of Non-controlling equity	9,110	574,580	—	345	—	—	1,372	585,407
Others	167,128	(95,723)	766,259	35,591	—	—	(4,699)	868,556
	<u>₩91,752,926</u>	<u>₩2,918,969</u>	<u>₩766,259</u>	<u>₩433,507</u>	<u>₩207,068</u>	<u>₩(602,388)</u>	<u>₩135,626</u>	<u>₩95,611,967</u>

¹ Derivatives held for hedging purposes are the net amount after offsetting liabilities from assets

The net cash inflow associated with the change of the subsidiaries for the year ended December 31, 2019 was ₩ 91,592 million.

39. Contingent Liabilities and Commitments

Details of payment guarantees as of December 31, 2018 and 2019, are as follows:

	<u>2018</u>	<u>2019</u>
	(In millions of Korean won)	
Confirmed payment guarantees		
Confirmed payment guarantees in Korean won		
Payment guarantees for KB purchasing loan	₩ 196,517	₩ 161,314
Other payment guarantees	597,636	746,823
Sub-total	<u>794,153</u>	<u>908,137</u>
Confirmed payment guarantees in foreign currency		
Acceptances of letter of credit	208,926	155,151
Letter of guarantees	53,210	49,754
Bid bond	51,528	37,765
Performance bond	604,311	718,097
Refund guarantees	592,925	1,022,646
Other payment guarantees in foreign currency	2,539,900	2,935,939
Sub-total	<u>4,050,800</u>	<u>4,919,352</u>
Financial guarantees		
Payment guarantees for mortgage	50,497	47,384
Overseas debt guarantees	311,796	406,680
International financing guarantees in foreign currencies	110,070	231,685
Other financing payment guarantees	270,000	230,000
Sub-total	<u>742,363</u>	<u>915,749</u>
Total Confirmed acceptances and guarantees	<u>5,587,316</u>	<u>6,743,238</u>
Unconfirmed acceptances and guarantees		
Guarantees of letter of credit	1,745,340	1,845,508
Refund guarantees	686,843	654,497
Total Unconfirmed acceptances and guarantees	<u>2,432,183</u>	<u>2,500,005</u>
Total	<u>₩8,019,499</u>	<u>₩9,243,243</u>

Payment guarantees that are exposed to credit risk as of December 31, 2018 and 2019, are as follows:

	2018			
	The financial instruments applying 12-month expected credit losses	The financial instruments applying lifetime expected credit losses		Total
		Non-impaired	Impaired	
	(In millions of Korean won)			
Confirmed payment guarantees				
Grade 1	₩ 3,726,259	₩ 179	₩ —	₩3,726,438
Grade 2	1,571,258	29,034	—	1,600,292
Grade 3	84,251	13,585	—	97,836
Grade 4	30,443	117,166	420	148,029
Grade 5	—	171	14,550	14,721
Sub-total	5,412,211	160,135	14,970	5,587,316
Grade 1	1,102,478	1,747	—	1,104,225
Grade 2	1,180,137	17,795	—	1,197,932
Grade 3	25,749	16,225	—	41,974
Grade 4	9,627	66,186	—	75,813
Grade 5	—	219	12,020	12,239
Sub-total	2,317,991	102,172	12,020	2,432,183
Total	₩ 7,730,202	₩ 262,307	₩ 26,990	₩8,019,499
	2019			
	The financial instruments applying 12-month expected credit losses	The financial instruments applying lifetime expected credit losses		Total
		Non-impaired	Impaired	
Confirmed payment guarantees				
Grade 1	₩ 4,220,046	₩ 696	₩ —	₩4,220,742
Grade 2	2,105,637	38,271	—	2,143,908
Grade 3	93,074	81,317	—	174,391
Grade 4	18,773	172,440	—	191,213
Grade 5	—	2,873	10,111	12,984
	6,437,530	295,597	10,111	6,743,238
Unconfirmed acceptances and guarantees				
Grade 1	1,228,258	1,289	—	1,229,547
Grade 2	1,121,159	32,413	—	1,153,572
Grade 3	17,091	20,957	—	38,048
Grade 4	4,236	62,964	—	67,200
Grade 5	—	170	11,468	11,638
	2,370,744	117,793	11,468	2,500,005
	₩ 8,808,274	₩ 413,390	₩ 21,579	₩9,243,243

Acceptances and guarantees by counterparty as of December 31, 2018 and 2019, are as follows:

	2018			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
	(In millions of Korean won)			
Corporations	₩4,775,838	₩1,901,951	₩6,677,789	83.27
Small companies	617,458	423,947	1,041,405	12.99
Public and others	194,020	106,285	300,305	3.74
Total	₩5,587,316	₩2,432,183	₩8,019,499	100.00

	2019			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
	(In millions of Korean won)			
Corporations	₩5,962,004	₩1,904,346	₩7,866,350	85.10
Small companies	650,612	397,539	1,048,151	11.34
Public and others	130,622	198,120	328,742	3.56
Total	₩6,743,238	₩2,500,005	₩9,243,243	100.00

Acceptances and guarantees by industry as of December 31, 2018 and 2019, are as follows:

	2018			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
	(In millions of Korean won)			
Financial institutions	₩ 72,071	₩ 3,736	₩ 75,807	0.95
Manufacturing	2,981,245	1,451,657	4,432,902	55.27
Service	931,680	84,586	1,016,266	12.67
Whole sale & Retail	998,333	723,367	1,721,700	21.47
Construction	280,146	40,988	321,134	4.00
Public sector	165,571	36,256	201,827	2.52
Others	158,270	91,593	249,863	3.12
Total	₩5,587,316	₩2,432,183	₩8,019,499	100.00

	2019			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
	(In millions of Korean won)			
Financial institutions	₩ 260,974	₩ 23,999	₩ 284,973	3.08
Manufacturing	3,373,220	1,627,840	5,001,060	54.11
Service	1,187,516	88,158	1,275,674	13.80
Whole sale & Retail	1,126,976	597,998	1,724,974	18.66
Construction	467,114	20,590	487,704	5.28
Public sector	107,481	81,895	189,376	2.05
Others	219,957	59,525	279,482	3.02
Total	₩6,743,238	₩2,500,005	₩9,243,243	100.00

Commitments as of December 31, 2018 and 2019, are as follows:

	<u>2018</u>	<u>2019</u>
	(In millions of Korean won)	
Commitments		
Corporate loan commitments	₩ 37,340,727	₩ 41,930,407
Retail loan commitments	41,335,454	42,582,736
Credit line on credit cards	54,488,133	60,667,219
Purchase of other security investment and others	5,426,058	6,617,253
Sub-total	<u>138,590,372</u>	<u>151,797,615</u>
Financial Guarantees		
Credit line	2,447,369	2,340,141
Purchase of security investment	436,800	591,500
Sub-total	<u>2,884,169</u>	<u>2,931,641</u>
Total	<u>₩141,474,541</u>	<u>₩154,729,256</u>

Other Matters (including litigation)

a) The Group has filed 102 lawsuits as a plaintiff (excluding minor lawsuits in relation to the collection or management of loans), involving aggregate claims of ₩458,195 million, and faces 207 lawsuits (as a defendant) (excluding minor lawsuits in relation to the collection or management of loans) involving aggregate damages of ₩193,002 million, which arose in the normal course of the business and are still pending as of December 31, 2019.

b) Kookmin bank made a construction contract building the integrated company building, amounting to ₩155,546 million; for the year ended December 31, 2019, the Bank has paid ₩41,598 million.

c) As at December 31, 2019, Kookmin Bank has entered into construction contracts amounting to ₩250,458 million related to the construction of The K Project(IT infrastructure construction business needed KB's Digital Transformation to cope with change of IT technology and finance environment), and payments made up to December 31, 2019 amount to ₩60,462 million.

d) The face value of the securities which Kookmin Bank sold to general customers through the bank tellers amounts to ₩372 million and ₩372 million as of December 31, 2018 and 2019, respectively.

e) While setting up a fraud detection system, a computer contractor employed by the personal credit ratings firm Korea Credit Bureau caused a widespread data breach in June 2013, resulting in the theft of cardholders' personal information. As a result of the leakage of customer personal information, the KB Kookmin Card received a notification from the Financial Services Commission that the KB Kookmin Card is subject to a temporary three-month operating suspension as of February 16, 2014. In respect of the incident, the Group faces 113 and 11 legal claims filed as a defendant, with an aggregate claim of ₩6,906 million and ₩444 million as of December 31, 2018 and 2019, respectively. A provision liability of ₩9,888 million and ₩2,549 million have been recognized for these pending lawsuits. In addition, the Group took out the personal information protection liability insurance. On the other hand, the further appeals can be filed against the Group, however, the final outcome cannot be reasonably measured.

f) As of December 31, 2019, the Group is not able to dispose, transfer or collateralize the shares of a joint-venture lease company or the right of shares to a third party without the written consent of Kolao Holdings for five years (the restriction period for the disposal of its equity) from the date of initial investment for KB KOLAO LEASING Co., LTD. Each party of the joint venture lease company may transfer all or part of its

equity, as determined separately, after the restriction period for the disposal of its equity has expired. Meanwhile, according to the agreement, KB KOLAO LEASING Co., LTD. disposes affiliated receivables, which are overdue for more than three months, of Kolao Holdings to Lanexang Leasing Co., Ltd.

g) KB Securities is a professional private equity investment firm which sells private investment funds that loans capital to corporations (borrowers) who invest in rental apartment of disables in Australia. KB Securities sold ₩ 326,500 million in funds and trusts to individuals and institutional investors. However, KB Securities is in probable of a loss of investment principal because the operation of the funds became impossible due to a contract breach of a local borrower. In this regard, one lawsuit has been filed with the Group and there is a possibility of further lawsuits as of December 31, 2019. The expected loss from the lawsuit is reflected as provision and the result of the lawsuit is unpredictable as of now.

h) Regarding Lime Asset Management, KB Securities is holding PIS(Portfolio Index Swap) contract in related to Lime Thetis Qualified Investor Private Investment Trust No.2 and Lime Pluto FI Qualified Investor Private Investment Trust No.D-1, which are suspended to repurchase in fourth quarter of 2019 and KB Securities holds beneficiary certificates and TRS contracts as underlying asset amount to ₩ 403,700 million. On the other hand, KB Securities has sold feeder fund of applicable funds amounts to ₩ 68,100 million. Lime Asset Management conducted a due diligence on the assets of the suspended fund through an external evaluation agency and adjusted the base price based on the results of the due diligence. The Group measured the fair values of the fund and linked TRS based on the fund base price, which is adjusted by Lime Asset Management reflecting the results of the due diligence. Lime Asset Management has a repurchase and management plan in place, however, at the current status, either the availability or timing of repurchase of the fund cannot be predicted. There is possibility of lawsuit to be filed in the future, but the impact on the financial statements is unpredictable as of now.

i) Kookmin Bank signed a contract to take over a 70 percent share in Prasak(PRASAC Microfinance Institution Limited), a microcreditary finance company in Cambodia, for US\$ 603 million from an existing stockholder on January 6, 2020. The Group is required to report this contract to the domestic and foreign financial authorities for approval in order to complete the contract.

The Group has signed an agreement with the existing shareholders of PRASAC. Existing shareholders of PRASAC have the right of put option to sell 30% of the remaining shares to the Group, and they are entitled to exercise their rights at the exercise price calculated on the basis of the adjustment book amount at the end of 2021 within six months from the issue date of the audit report or date when the adjusted book amount is confirmed. If existing shareholders do not exercise put option within the exercise period, the Group has the right of call option to buy the shares of existing shareholders within six months of the end of the put option exercisable period. All stockholders are restricted from selling shares or additional pledge before exercising the put option and call option.

j) KB Kookmin Card signed a stock sale agreement to acquire 80% of the shares of PT. Finansia Multi Finance, Indonesian financial company, for US\$ 81 million in December 2019 and paid US\$ 16 million in December 2019. In addition, KB Kookmin Card entered into a contract to acquire bonds, which includes the right to exchange 5% of PT. Finansia Multi Finance shares, issued by PT. Finansia Multi Finance shareholders for US\$ 5 million.

40. Subsidiaries

Details of subsidiaries as of December 31, 2019 are as follows:

<u>Investor</u>	<u>Investee</u>	<u>Ownership interests (%)</u>	<u>Location</u>	<u>Date of financial statements</u>	<u>Industry</u>	
KB Financial Group Inc.	Kookmin Bank	100.00	Korea	Dec. 31	Banking and foreign exchange transaction	
	KB Securities Co., Ltd.	100.00	Korea	Dec. 31	Financial investment	
	KB Insurance Co., Ltd.	100.00	Korea	Dec. 31	Non-life insurance	
	KB Kookmin Card Co., Ltd.	100.00	Korea	Dec. 31	Credit card and installment finance	
	KB Asset Management Co., Ltd.	100.00	Korea	Dec. 31	Collective investment and advisory	
	KB Capital Co., Ltd.	100.00	Korea	Dec. 31	Financial Leasing	
	KB Life Insurance Co., Ltd.	100.00	Korea	Dec. 31	Life insurance	
	KB Real Estate Trust Co., Ltd.	100.00	Korea	Dec. 31	Real estate trust management	
	KB Savings Bank Co., Ltd.	100.00	Korea	Dec. 31	Savings banking	
	KB Investment Co., Ltd.	100.00	Korea	Dec. 31	Capital investment	
	KB Data System Co., Ltd.	100.00	Korea	Dec. 31	Software advisory, development, and supply	
	KB Credit Information Co., Ltd.	100.00	Korea	Dec. 31	Collection of receivables or credit investigation	
	Kookmin Bank	Kookmin Bank Cambodia PLC.	100.00	Cambodia	Dec. 31	Banking and foreign exchange transaction
		Kookmin Bank Int'l Ltd. (London) ⁶	100.00	United Kingdom	Dec. 31	Banking and foreign exchange transaction
		Kookmin Bank(China) Ltd.	100.00	China	Dec. 31	Banking and foreign exchange transaction
		KB Microfinance Myanmar Co., Ltd.	100.00	Myanmar	Dec. 31	Other credit granting n.e.c.
		KBD Tower 1st L.L.C. and 39 others ²	—	Korea	Dec. 31	Asset-backed securitization
KB Haeoreum private securities investment trust 83(Bond)		99.94	Korea	Dec. 31	Capital investment	
Kiwoom Frontier Private placement fund 10(Bond)		99.90	Korea	Dec. 31	Capital investment	
Tong Yang Safe Plus Qualified Private Trust S-8		99.96	Korea	Dec. 31	Capital investment	
Mirae Asset Triumph Global Privately placed Feeder Investment Trust 1		99.92	Korea	Dec. 31	Capital investment	
NH-AMUNDI Global Private Securities Investment Trust 1(USD)(BOND)		77.78	Korea	Dec. 31	Capital investment	
KB KBSTAR Mid-Long Term KTB Active ETF ³		87.53	Korea	Dec. 31	Capital investment	
Samsung KODEX 10Y F-SKTB Inverse		98.56	Korea	Dec. 31	Capital investment	
KB Global Private Real Estate Debt Fund 3rd(USD)		99.50	Korea	Dec. 31	Capital investment	
KB Europe Renewable Specialized Investment NO.2(EUR)(SOC- FoFs) ³		50.00	Korea	Dec. 31	Capital investment	

<u>Investor</u>	<u>Investee</u>	<u>Ownership interests (%)</u>	<u>Location</u>	<u>Date of financial statements</u>	<u>Industry</u>
KB Securities Co., Ltd.	KB Korea Short Term Premium Private Securities 10 (USD)(BOND) ³	50.00	Korea	Dec. 31	Capital investment
	AIP US Red Private Real Estate Trust NO.10	99.97	Korea	Dec. 31	Capital investment
	KBFG Securities America Inc.	100.00	United States of America	Dec. 31	Investment advisory and securities dealing activities
	KB Securities Hong Kong Ltd.	100.00	China	Dec. 31	Investment advisory and securities dealing activities
	KB SECURITEIS VIETNAM JOINT STOCK COMPANY	99.70	Vietnam	Dec. 31	Investment advisory and securities dealing activities
	Able NS Co., Ltd and 64 others ²	—	Korea	Dec. 31	Asset-backed securitization
	KB NA COMPASS Energy Private Special Asset Fund ³	29.67	Korea	Dec. 31	Capital investment
	Hyundai Smart Index Alpha Securities Feeder Investment Trust No.1	98.86	Korea	Dec. 31	Capital investment
	Hyundai Strong Korea Equity Trust No.1(Equity)	99.51	Korea	Dec. 31	Capital investment
	Hyundai Kidzania Equity Feeder Trust No.1	79.67	Korea	Dec. 31	Capital investment
	Hyundai Value Plus Equity Feeder Trust No.1	99.64	Korea	Dec. 31	Capital investment
	Heungkuk Highclass Private Real Estate Trust No. 21	100.00	Korea	Dec. 31	Capital investment
	JB New Jersey Private Real Estate Investment Trust No. 1	98.15	Korea	Dec. 31	Capital investment
	Heungkuk Global Highclass Private Real Estate Trust No. 23	100.00	Korea	Dec. 31	Capital investment
	Hyundai Dynamic Mix Securities Feeder Investment Trust No.1	99.99	Korea	Dec. 31	Capital investment
	Hyundai Quant Long Short Securities Feeder Investment Trust No. 1	100.00	Korea	Dec. 31	Capital investment
	Hyundai Kon-tiki Specialized Privately Placed Fund No.1	82.06	Korea	Dec. 31	Capital investment
	DGB Private real estate Investment Trust No.8	98.77	Korea	Dec. 31	Capital investment
	Aquila Global Real Assets Fund No.1 LP	99.96	Cayman islands	Dec. 31	Capital investment
	Mangrove Feeder Fund	100.00	Cayman islands	Dec. 31	Capital investment
LB Ireland Private Real Estate Investment Trust 8	96.64	Korea	Dec. 31	Capital investment	
KTB Aircraft Private Investment Trust No.21-1	99.61	Korea	Dec. 31	Capital investment	
Pacific US Blackrock Private Placement Real Estate Fund No.15	99.50	Korea	Dec. 31	Capital investment	

<u>Investor</u>	<u>Investee</u>	<u>Ownership interests (%)</u>	<u>Location</u>	<u>Date of financial statements</u>	<u>Industry</u>
KB Insurance Co., Ltd.	Vestas Qualified Investors Private Real Estate Fund Investment Trust No.38	54.84	Korea	Dec. 31	Capital investment
	Hyundai Strong-small Corporate Trust No.1	91.61	Korea	Dec. 31	Capital investment
	Capstone US Professional Investment Private Fund #6	99.79	Korea	Dec. 31	Capital investment
	JB Dry Street Private Fund1	100.00	Korea	Dec. 31	Capital investment
	JB Australia108 Private Fund1	100.00	Korea	Dec. 31	Capital investment
	JB Forge Private Fund1	100.00	Korea	Dec. 31	Capital investment
	JB Hall Street Private Fund1	100.00	Korea	Dec. 31	Capital investment
	JB Margaret Street Private Fund1	100.00	Korea	Dec. 31	Capital investment
	LB UK Private Real Estate Investment Trust No.18	100.00	Korea	Dec. 31	Capital investment
	LB UK Private Real Estate Investment Trust No.19	100.00	Korea	Dec. 31	Capital investment
	Leading Insurance Services, Inc.	100.00	United States of America	Dec. 31	Management service
	LIG Insurance (China) Co., Ltd.	100.00	China	Dec. 31	Non-life insurance
	PT. KB Insurance Indonesia	70.00	Indonesia	Dec. 31	Non-life insurance
	KB Claims Survey & Adjusting	100.00	Korea	Dec. 31	Claim service
	KB Sonbo CNS	100.00	Korea	Dec. 31	Management service
	KB Golden Life Care Co., Ltd.	100.00	Korea	Dec. 31	Service
	KB AMP Infra Private Special Asset Fund 1(FoFs) ³	41.67	Korea	Dec. 31	Capital investment
	KB Muni bond Private Securities Fund 1(USD)(bond) ³	33.33	Korea	Dec. 31	Capital investment
	KB CHILE SOLAR FUND	80.00	Korea	Dec. 31	Capital investment
	Meritz Private Specific Real Estate Fund 1-2	87.21	Korea	Dec. 31	Capital investment
	KB Global Private Real Estate Debt Fund 1 ³	50.00	Korea	Dec. 31	Capital investment
	Hana Landchip Real estate Private Fund 58 th	99.99	Korea	Dec. 31	Financial investment
	Hyundai Power Professional Investment Type Private Investment Fund No.4	99.79	Korea	Dec. 31	Financial investment
	KB U.S. LongShort Private Securities Fund 1	99.37	Korea	Dec. 31	Financial investment
	Hyundai Infra Professional Investment Type Private Investment Trust No.5	99.82	Korea	Dec. 31	Financial investment
	KB SAUDI SEPCO II Private Special Asset Fund	80.00	Korea	Dec. 31	Financial investment
	Meritz Private Real Estate Fund 8	99.36	Korea	Dec. 31	Financial investment
	Hyundai Star Private Real Estate Investment Trust No. 14	99.98	Korea	Dec. 31	Financial investment

Investor	Investee	Ownership interests (%)	Location	Date of financial statements	Industry
KB Kookmin Card Co., Ltd.	Vogo debt strategy private real estate fund VII	99.25	Korea	Dec. 31	Financial investment
	KORAMCO Europe Debt Strategy Private Real-Estate Fund 2nd	99.80	Korea	Dec. 31	Capital investment
	KB Peru Transmission Facility Investment Private Fund	99.08	Korea	Dec. 31	Capital investment
	KB Global Private Real Estate Debt Fund 2	98.36	Korea	Dec. 31	Capital investment
	KB Europe Private Real Estate Debt Fund 1	57.14	Korea	Dec. 31	Capital investment
	KB AU Infigen Energy Private Special Asset Fund 2 ³	47.37	Korea	Dec. 31	Capital investment
	KB North American Loan Specialty Private Real Estate Investment Trust 3rd ³	36.12	Korea	Dec. 31	Capital investment
	Multi Asset Global Private Debt Fund 6	99.62	Korea	Dec. 31	Capital investment
	KB DAEHAN SPECIALIZED BANK PLC.	90.00	Cambodia	Dec. 31	Banking
	KB Kookmin Card 3rd Securitization Co., Ltd. and 3 others ²	0.50	Korea	Dec. 31	Asset-backed securitization
KB Asset Management Co., Ltd.	Heungkuk Life Insurance Money Market Trust	100.00	Korea	Dec. 31	Trust asset management
	KBAM Shanghai Advisory Services Co.,Ltd	100.00	China	Dec. 31	General advisory
	KB Star Office Private Real Estate Feeder fund 3-2	88.00	Korea	Dec. 31	Capital investment
	KB Asset Management Singapore Pte, Ltd.	100.00	Singapore	Dec. 31	Collective investment
	KB Global Multiasset Income Securities Feeder Fund(Bond Mixed-FoFs) ³	36.56	Korea	Dec. 31	Capital investment
	KB Active Investor Securities Investment Trust(Derivatives Mixed)	71.16	Korea	Dec. 31	Capital investment
	KB G2 Plus Korea Securities Fund(Equity)	52.51	Korea	Dec. 31	Capital investment
	KB Hedge Fund Solution Mixed Asset Fund(FoFs)	97.62	Korea	Dec. 31	Capital investment
	KB OCIO Global Asset Allocation Private Fund 1	83.69	Korea	Dec. 31	Capital investment
	KB Global Big data Research Securities Feeder Fund(Equity)(H)	99.49	Korea	Dec. 31	Capital investment
	KB Long-term Total Return Performance Fee Securities Investment Trust(Equity-mixed)	56.94	Korea	Dec. 31	Capital investment
	KB GLOBAL ESG SECURITIES FEEDER FUND(USD)(EQUITY)	53.80	Korea	Dec. 31	Capital investment

<u>Investor</u>	<u>Investee</u>	<u>Ownership interests (%)</u>	<u>Location</u>	<u>Date of financial statements</u>	<u>Industry</u>
KB Investment Co., Ltd.	KB Star Office Private Real Estate Investment Trust 5 ³	37.11	Korea	Dec. 31	Capital investment
	KB Global Core REITs Real Estate Self-Investment Trust (H) C-F	50.36	Korea	Dec. 31	Capital investment
	KB Global Core REITs Real Estate Self-Investment Trust (UH) C-F	85.52	Korea	Dec. 31	Capital investment
	KB Global Alpha Opportunity Securities Investor Trust (Mixed-Redirect) ³	33.66	Korea	Dec. 31	Capital investment
	KB Best More Dream Mixed Assets Self-Investment Trust	79.73	Korea	Dec. 31	Capital investment
	KB Korea Equity EMP Solution Securities Fund(Equity-FoFs) ³	45.26	Korea	Dec. 31	Capital investment
	2011 KIF-KB IT Venture Fund ⁴	43.33	Korea	Dec. 31	Capital investment
	KoFC-KB Young Pioneer 1st Fund ⁴	33.33	Korea	Dec. 31	Capital investment
	KB NEW CONTENTS Venture Fund ⁴	20.00	Korea	Dec. 31	Capital investment
	KB Young Pioneer 3.0 Venture Fund ⁴	40.00	Korea	Dec. 31	Capital investment
	KB Pre IPO Secondary Venture Fund 2 ⁴	21.00	Korea	Dec. 31	Capital investment
	KB Contents Panda iMBC Contents Venture Fund ⁴	20.00	Korea	Dec. 31	Capital investment
	KB Culture & Global Digital Contents Fund Limited partnership ⁴	22.50	Korea	Dec. 31	Capital investment
	KB Gross Capital Fund ⁴	32.30	Korea	Dec. 31	Capital investment
	Kookmin Bank, KB Investment Co., Ltd.	KB12-1 Venture Investment	100.00	Korea	Dec. 31
KB Start-up Creation Fund		62.50	Korea	Dec. 31	Capital investment
KB Intellectual Property Fund ⁴		34.00	Korea	Dec. 31	Capital investment
Kookmin Bank, KB Securities Co., Ltd., KB Insurance Co., Ltd.,	KB Global Infra Private Special Asset Fund No.5 ³	45.46	Korea	Dec. 31	Capital investment
	Kookmin Bank, KB Securities Co., Ltd., KB Insurance Co., Ltd.,	KB Global Infra Private Special Asset Fund No.6 ³	45.46	Korea	Dec. 31

Investor	Investee	Ownership interests (%)	Location	Date of financial statements	Industry
Kookmin Bank, KB Insurance Co., Ltd., KB life Insurance Co., Ltd., KB Investment Co., Ltd.	KB High-tech Company Investment Fund	100.00	Korea	Dec. 31	Capital investment
Kookmin Bank, KB Securities Co., Ltd., KB Insurance Co., Ltd., KB Kookmin Card Co., Ltd., KB Capital Co., Ltd., KB Life Insurance Co., Ltd.	KB digital innovation&growth New Technology Business Investment Fund	100.00	Korea	Dec. 31	Capital investment
Kookmin Bank, KB Investment Co., Ltd., KB Capital Co., Ltd.	KB Intellectual Property Fund 2	75.00	Korea	Dec. 31	Capital investment
Kookmin Bank, KB Insurance Co., Ltd., KB Investment Co., Ltd., KB Capital Co., Ltd.	KB Digital Innovation Investment Fund Limited partnership	62.51	Korea	Dec. 31	Capital investment
Kookmin Bank, KB Securities Co., Ltd., KB Insurance Co., Ltd., KB Kookmin Card Co., Ltd., KB Capital Co., Ltd., KB Investment Co., Ltd.	KB Global Platform Fund	100.00	Korea	Dec. 31	Capital investment
Kookmin Bank, KB Securities Co., Ltd., KB Life Insurance Co., Ltd., KB real estimate trust co., Ltd.	KB Wise Star Private Real Estate Feeder Fund 1st.	100.00	Korea	Dec. 31	Investment trust
Kookmin Bank, KB Insurance Co., Ltd.	Hanbando BTL Private Special Asset Fund 1st ³	46.36	Korea	Dec. 31	Capital investment
Kookmin Bank, KB Insurance Co., Ltd.	KB KBSTAR Mid-Long Term KTB Active ETF ³	37.59	Korea	Dec. 31	Capital investment
Kookmin Bank, KB Insurance Co., Ltd.	KOREIT BIEN Specialized Private Equity Private Investment Trust No. 1	100	Korea	Dec. 31	Capital investment

Investor	Investee	Ownership interests (%)	Location	Date of financial statements	Industry
Kookmin Bank, KB Insurance Co., Ltd.	KB Mezzanine Private Security Investment Trust No.3 ³	25.33	Korea	Dec. 31	Capital investment
Kookmin Bank, KB Insurance Co., Ltd., KB life Insurance Co., Ltd.	KB Hope Sharing BTL Private Special Asset ³	46.00	Korea	Dec. 31	Capital investment
Kookmin Bank, KB Insurance Co., Ltd., KB life Insurance Co., Ltd.	KB Senior Loan Private Fund ³	37.39	Korea	Dec. 31	Capital investment
Kookmin Bank, KB Insurance Co., Ltd., KB life Insurance Co., Ltd.	KB New Renewable Energy Private Special Asset Fund 1	100.00	Korea	Dec. 31	Capital investment
Kookmin Bank, KB Insurance Co., Ltd., KB life Insurance Co., Ltd., KB Asset Management Co., Ltd.	KB Core Blind Private Estate Fund 1st	100.00	Korea	Dec. 31	Capital investment
Kookmin Bank, KB life Insurance Co., Ltd.,	KB Mezzanine Private Security Investment Trust No.2 ³	40.74	Korea	Dec. 31	Capital investment
Kookmin Bank, KB Insurance Co., Ltd., KB Asset Management Co., Ltd.	KB Star Office Private Real Estate Investment Trust 4	51.96	Korea	Dec. 31	Capital investment
Kookmin Bank, KB Securities Co., Ltd.	Meritz Private Real Estate Fund 9-2	100.00	Korea	Dec. 31	Capital investment
Kookmin Bank, KB Securities Co., Ltd., KB Insurance Co., Ltd., KB life Insurance Co., Ltd. KB Asset Management Co., Ltd.	KB Global Core Bond Securities Fund Master Fund(Bond)	77.30	Korea	Dec. 31	Capital investment
KB Securities Co., Ltd., KB Investment Co., Ltd.	KB KONEX Market Vitalization Fund ⁴	46.88	Korea	Dec. 31	Capital investment
	KB Neo Paradigm Agriculture Venture ⁴	50.00	Korea	Dec. 31	Capital investment
	KB New Paradigm Fisheries Venture Fund ⁴	33.33	Korea	Dec. 31	Capital investment

Investor	Investee	Ownership interests (%)	Location	Date of financial statements	Industry
KB Securities Co., Ltd., KB Asset Management Co., Ltd.	KB Onkookmin Life Income RIF 20feeder Fund(FoFs)	99.04	Korea	Dec. 31	Capital investment
	KB Onkookmin Life Income RIF 40feeder Fund(FoFs)	99.23	Korea	Dec. 31	Capital investment
	KB Onkookmin TDF 2030 Master Fund(FoFs) ³	27.82	Korea	Dec. 31	Capital investment
	KB Onkookmin TDF 2045 Master Fund(FoFs) ³	32.68	Korea	Dec. 31	Capital investment
KB Securities Co., Ltd., KB life Insurance Co., Ltd.	KB AU Infigen Energy Private Special Asset Fund	100.00	Korea	Dec. 31	Capital investment
KB Securities Co., Ltd., KB Asset Management Co., Ltd., KB Star Office Private Real Estate Investment Trust No.5	KB Wise Star Private Real Estate Feeder Fund 2nd	88.23	Korea	Dec. 31	Capital investment
KB Insurance Co., Ltd., KB life Insurance Co., Ltd	KB North American Loan Specialty Private Real Estate Investment Trust 1st	100.00	Korea	Dec. 31	Capital investment
KB Kookmin Card Co., Ltd., KB Capital Co., Ltd.	KB KOLAO LEASING CO., Ltd	80.00	Laos	Dec. 31	Auto Installment Finance
KB Wise Star Private Real Estate Feeder Fund 1st	KB Star Office Private Real Estate Master Investment Trust 2 ⁵	44.44	Korea	Dec. 31	Capital investment
KB Wise Star Private Real Estate Feeder Fund 1st., KB Securities Co., KB Asset Management Co., Ltd.	KB Star Office Private Real Estate Investment Trust 3	52.31	Korea	Dec. 31	Capital investment
Hyundai Strong Korea Equity Trust No.1	Hyundai Strong Korea Equity Trust No.1[Master]	66.56	Korea	Dec. 31	Capital investment
Mangrove Feeder Fund	Mangrove Master Fund	100.00	Cayman islands	Dec. 31	Capital investment
KBFG Securities Hongkong Ltd.	Global Investment Opportunity Limited	100.00	Malaysia	Dec. 31	Finance and Real Estate Investment
Hyundai Smart Index Alpha Securities Feeder Inv Trust 1	Hyundai Smart Index Alpha Securities Master Investment Trust	99.86	Korea	Dec. 31	Capital investment

Investor	Investee	Ownership interests (%)	Location	Date of financial statements	Industry
Hyundai Value Plus Securities Feeder Investment Trust 1 and Hyundai Kidzania Equity Feeder Trust No.1	Hyundai Value Plus Securities Master Investment Trust	100.00	Korea	Dec. 31	Capital investment
Hyundai Dynamic Mix Securities Feeder Investment Trust	Hyundai Dynamic Mix Securities Master Investment Trust	98.48	Korea	Dec. 31	Capital investment
Hyundai Quant Long Short Securities Feeder Investment Trust 1	Hyundai Quant Long Short Securities Master Investment Trust	100.00	Korea	Dec. 31	Capital investment
Aquila Global Real Assets Fund No.1 LP	AGRAF Real Estate No.1, Senningerberg	100.00	Luxemburg	Dec. 31	Asset-backed securitization
AGRAF Real Estate No.1, Senningerberg	AGRAF Real Estate Holding No.1, Senningerberg	100.00	Luxemburg	Dec. 31	Asset-backed securitization
AGRAF Real Estate Holding No.1, Senningerberg	Vierte CasaLog GmbH & Co. KG	100.00	Germany	Dec. 31	Real estate investment
AGRAF Real Estate Holding No.1, Senningerberg	HD1 Grundstucksgesellschaft mbH & Co. KG	100.00	Germany	Dec. 31	Real estate investment
AGRAF Real Estate Holding No.1, Senningerberg	Sechste Casallog KG	100.00	Germany	Dec. 31	Real estate investment
JB New Jersey Private Real Estate Investment Trust No. 1	ABLE NJ DSM INVESTMENT REIT	99.18	United States of America	Dec. 31	Real estate investment
ABLE NJ DSM INVESTMENT REIT	ABLE NJ DSM, LLC	100.00	United States of America	Dec. 31	Real estate investment
Heungkuk Global Highclass Private Real Estate Trust 23	HYUNDAI ABLE INVESTMENT REIT	99.90	United States of America	Dec. 31	Real estate investment
HYUNDAI ABLE INVESTMENT REIT	HYUNDAI ABLE PATRIOTS PARK, LLC	100.00	United States of America	Dec. 31	Real estate investment
LB Ireland Private Real Estate Investment Trust 8	BECKETT ACQUISITION LIMITED	100.00	Ireland	Dec. 31	Real estate investment
KB Global Multiasset Income Securities Feeder Fund(Bond Mixed-FoFs)	KB Global Multiasset Income Securities Master Fund(Bond Mixed-FoFs)	87.00	Korea	Dec. 31	Capital investment

Investor	Investee	Ownership interests (%)	Location	Date of financial statements	Industry
KB Onkookmin Life Income RIF 20feeder Fund(FoFs)	KB Onkookmin Life Income RIF 20 Master Fund(FoFs)	86.00	Korea	Dec. 31	Capital investment
KB Onkookmin Life Income RIF 40feeder Fund(FoFs)	KB Onkookmin Life Income RIF 40 Master Fund(FoFs)	86.00	Korea	Dec. 31	Capital investment
Mirae Asset Triumph Global Privately placed feeder Investment Trust 1	Mirae Asset Triumph Global Privately placed Master Investment Trust 1	100.00	Korea	Dec. 31	Capital investment
Mirae Asset Triumph Global Privately placed feeder Investment Trust 1	Mirae Asset Triumph Global Privately placed Master Investment Trust 2	100.00	Korea	Dec. 31	Capital investment
KB Global Core Bond Securities feeder Fund(Bond)	KB Global Core Bond Securities Master Fund(Bond)	100.00	Korea	Dec. 31	Capital investment
KB Global Big data Research Securities Master Fund(Equity)(H)	KB Global Big data Research Securities Master Fund(Equity)(H)	100.00	Korea	Dec. 31	Capital investment
KB Global Good Investment ESG Securities feeder Fund(Equity)(H), KB Best More Dream Mixed Assets Self-Investment Trust	KB GLOBAL ESG SECURITIES FEEDER FUND(USD)	100.00	Korea	Dec. 31	Capital investment
KB Global Core REITs Real Estate Self-Investment Trust (Redirect) (H), KB Global Core REITs Real Estate Self-Investment Trust (Redirect) (UH) C-F, KB Best More Dream Mixed Assets Self-Investment Trust	KB Global Core REITs Real Estate Investment Fund (Indirect)	100.00	Korea	Dec. 31	Capital investment

Investor	Investee	Ownership interests (%)	Location	Date of financial statements	Industry
KB Global Alpha Opportunity Securities Investor Trust (Mixed-Redirect), KB Best More Dream Mixed Assets Self-Investment Trust	KB Global Alpha Opportunity Securities Parent Investment Trust (Mixed-Redirect)	100.00	Korea	Dec. 31	Capital investment
KB Hedge Fund Solution Mixed Asset Parent Investment Trust (Private Investment Indirect), KB Best More Dream Mixed Assets Self-Investment Trust	KB Hedge Fund Solution Mixed Asset Parent Investment Trust (Private Investment Indirect)	100.00	Korea	Dec. 31	Capital investment
KB Wise Star Private Real Estate Feeder Fund 1st, KB Wise Star Private Real Estate Feeder Fund 2nd	KB Wise Star Jongno Tower Real Estate Master Fund	100.00	Korea	Dec. 31	Capital investment
KB Core Blind Private Estate Fund 1st	KB Wise Star Private Real Estate Feeder Fund 3rd ³	46.90	Korea	Dec. 31	Capital investment
Kookmin Bank	Personal pension trusts and 10 other trusts ¹	—	Korea	Dec. 31	Trust
Vestas Qualified Investors Private Real Estate Fund Investment Trust No.38	Lumen International Developments	100.00	Luxemburg	Dec. 31	Capital investment
Lumen International Developments	VREF Shaftesbury ScSp	100.00	Luxemburg	Dec. 31	Capital investment
LB UK Private Real Estate Investment Trust No.18, etc	Hillswood Finco Ltd.	100.00	Jersey	Dec. 31	Capital investment
LB UK Private Real Estate Investment Trust No.18, etc	Hillswood Holdings Ltd.	100.00	Jersey	Dec. 31	Capital investment
LB UK Private Real Estate Investment Trust No.18, etc	Hillswood Holding Property Unit Trust	100.00	Jersey	Dec. 31	Capital investment
Hillswood Holding Property Unit Trust, etc	Hillswood Property Unit Trust	100.00	Jersey	Dec. 31	Capital investment

<u>Investor</u>	<u>Investee</u>	<u>Ownership interests (%)</u>	<u>Location</u>	<u>Date of financial statements</u>	<u>Industry</u>
Hyundai Strong-small Corporate Trust No.1	Hyundai Strong-small Corporate Master Trust	80.43	Korea	Dec. 31	Capital investment

- 1 The Group controls the trust because it has power that determines the management performance over the trust and is exposed to variable returns to absorb losses through the guarantees of payment of principal, or payment of principal and fixed rate of return.
- 2 Although the Group holds less than a majority of the investee's voting rights, the Group controls these investees as it has power over relevant activities in case of default; is significantly exposed to variable returns by providing lines of credit or ABCP purchase commitments or due to acquisition of subordinated debt; and has ability to affect those returns through its power.
- 3 Although the Group holds less than a majority of the investee's voting rights, the Group controls the investee as it has power over relevant activities by managing the fund; has significant percentage of ownership; is significantly exposed to variable returns which is affected by the performance of the investees; and has ability to affect the performance through its power.
- 4 Although the Group holds less than a majority of the investee's voting rights, the Group controls the investee as it has power over relevant activities by taking the role of an operating manager and it is significantly exposed to variable returns which is affected by the performance of the investees, and has ability to affect the performance through its power.
- 5 Although the Group holds less than a majority of the investee's voting rights, the Group participated directly in establishment of this entity and has power over relevant activities, and is significantly exposed to variable returns which is affected by the performance of the investee, and has ability to affect the performance through its power. Accordingly the Group has control over the investee.
- 6 The Group changed Kookmin Bank Int'l Ltd. (London) to Kookmin Bank London Branch on May 16, 2018, and this event is categorized as business combination of entities under common control. The assets and liabilities acquired under business combinations under common control are recognized at the carrying amounts in the consolidated financial statements of the Group. The transferred assets and liabilities due to this business combination are ₩ 480,161 million and ₩ 480,023 million, respectively.

Structured companies that hold more than half of their ownership percentage but do not have the strength to related activities in accordance with agreements with trust and other related parties are excluded from the consolidation.

The condensed financial information of major subsidiaries as of December 31, 2018 and 2019, and for the years ended December 31, 2018 and 2019, is as follows:

2018						
	Assets	Liabilities	Equity	Operating income	Profit (loss) for the year	Total comprehensive income (loss) for the year
(In millions of Korean won)						
Kookmin Bank ¹	₩356,959,258	₩330,291,392	₩26,667,866	₩18,089,885	₩2,259,198	₩ 2,186,979
KB Securities Co., Ltd. ^{1,2}	45,086,292	40,613,423	4,472,869	6,667,005	178,850	204,903
KB Insurance Co., Ltd. ^{1,2}	34,785,551	31,289,706	3,495,845	11,977,601	262,266	317,067
KB Kookmin Card Co., Ltd. ¹	20,528,951	16,570,280	3,958,671	3,045,039	286,599	261,667
KB Life Insurance Co., Ltd. ¹	9,680,379	9,128,148	552,231	1,305,231	14,824	25,062
KB Asset Management Co., Ltd. ¹	254,256	107,504	146,752	130,027	39,586	40,154
KB Capital Co., Ltd. ^{1,2}	9,517,239	8,516,838	1,000,401	734,499	111,939	111,758
KB Savings Bank Co., Ltd.	1,388,844	1,186,871	201,973	85,346	11,018	10,832
KB Real Estate Trust Co., Ltd.	293,063	57,229	235,834	114,660	47,004	46,813
KB Investment Co., Ltd. ¹	528,701	374,925	153,776	114,914	14,532	14,529
KB Credit Information Co., Ltd.	26,276	11,041	15,235	35,219	185	95
KB Data System Co., Ltd.	40,197	23,788	16,409	131,374	2,942	1,705
2019						
	Assets	Liabilities	Equity	Operating income	Profit (loss) for the year	Total comprehensive income (loss) for the year
(In millions of Korean won)						
Kookmin Bank ¹	₩387,425,038	₩358,420,805	₩29,004,233	₩20,817,431	₩2,439,079	₩ 2,428,154
KB Securities Co., Ltd. ^{1,2}	47,816,512	43,131,858	4,684,654	8,053,363	257,893	261,639
KB Insurance Co., Ltd. ^{1,2}	36,552,368	32,689,460	3,862,908	12,661,927	234,327	366,362
KB Kookmin Card Co., Ltd. ¹	22,990,114	18,925,195	4,064,919	3,102,186	316,546	306,251
KB Asset Management Co., Ltd. ¹	310,018	114,776	195,242	148,780	48,899	48,490
KB Capital Co., Ltd. ¹	11,190,568	10,036,077	1,154,491	931,694	117,028	115,524
KB Life Insurance Co., Ltd. ^{1,2}	9,801,905	9,186,567	615,338	1,506,417	15,963	63,107
KB Real Estate Trust Co., Ltd.	377,938	85,132	292,806	119,899	61,713	61,672
KB Savings Bank Co., Ltd.	1,361,032	1,148,625	212,407	92,435	16,301	15,433
KB Investment Co., Ltd. ¹	756,972	542,221	214,751	99,822	11,311	11,310
KB Data System Co., Ltd.	41,690	20,999	20,691	158,067	4,664	4,282
KB Credit Information Co., Ltd.	27,834	12,936	14,898	38,278	(256)	(337)

¹ Financial information is based on its consolidated financial statements.

² The amount includes the fair value adjustments due to the merger.

Nature of the risks associated with interests in consolidated structured entities

The terms of contractual arrangements to provide financial support to a consolidated structured entity

- The Group has provided payment guarantees of ₩ 3,498,818 million to KBD Tower 1st L.L.C. and other subsidiaries.
- The Group provides capital commitment to KB Wise Star Private Real Estate Feeder Fund 1st. and 24 other subsidiaries. The unexecuted amount of the investment agreement is ₩ 592,435 million. Based on the capital commitment, the Group is subject to increase its investment upon the request of the asset management company or the additional agreement among investors.
- The Group provides the guarantees of payment of principal, or principal and fixed rate of return in case the operating results of the trusts are less than the guaranteed principal, or principal and fixed rate of return.

Changes in subsidiaries

The subsidiaries newly included in consolidation during the year ended December 31, 2019, are as follows:

<u>Company</u>	<u>Description</u>
KBAM Shanghai Advisory Services Co., Ltd and 38 others	Holds over than a majority of the ownership interests
KBH the 5 th L.L.C and 70 others	Holds the power in the case of default and exposed to variable returns by providing lines of credit, ABCP purchase commitments or acquiring subordinated debt
KB New Renewable Energy Private Special Asset Fund 1 and 15 others	Holds the power to determine the operation of the trust and exposed to variable returns by holding significant amount of ownership interests
KB Culture & Global Digital Contents Fund Limited partnership and 2 others	The Group has a power over the investee as a general partner, is significantly exposed to variable returns due to significant percentage of ownership.

The subsidiaries excluded from consolidation during the year ended December 31, 2019, are as follows:

<u>Company</u>	<u>Description</u>
KH the 4 th L.L.C and 59 others	Lost the right of variable returns due to the releasing debt
KB Evergreen Private Securities Fund 98(Bond) and 6 others	Liquidation
Hyundai China Index Plus Securities Investment Trust No.1 and 13 others	Disposal
KB Everyone TDF 2035 Securities Investment Trust - Bond Balanced-Fund of Funds and 7 others	Ownership decrease

41. Unconsolidated Structured Entity

The nature, purpose and activities of the unconsolidated structured entities and how the structured entities are financed, are as follows:

<u>Nature</u>	<u>Purpose</u>	<u>Activity</u>	<u>Method of Financing</u>
Structured financing	Granting PF loans and stocks to SOC and real estate	Construction of SOC and real estate	Loan commitments through Credit Line, providing lines of credit and investment agreements
	Granting loans and stocks to ships/aircrafts SPC	Building ships/ construction and purchase of aircrafts	
	Project financing, such as mergers and acquisitions	Mergers and acquisitions	
Investment funds	Investment in beneficiary certificates	Management of fund assets	Sales of beneficiary certificate instruments
	Investment in PEF and partnerships	Payment of fund fees and allocation of fund profits	Investment of managing partners and limited partners
Trusts	Management of financial trusts;	Development, management, and disposal of trusted real estate assets	Distribution of trusted real estate assets and financing of trust company
	—Development trust		
	—Mortgage trust	Payment of trust fees and allocation of trust profits.	Public auction of trusted real estate assets and financing of trust company
	—Management trust		
	—Disposal trust		
	—Distribution and management trust		
—Other trusts			
Asset-backed securitization	Early cash generation through transfer of securitization assets	Fulfillment of Asset-backed securitization plan	Issuance of ABS and ABCP based on securitization assets
	Fees earned as services to SPC, such as providing lines of credit and ABCP purchase commitments	Purchase and transfer of securitization assets Issuance and repayment of ABS and ABCP	

Details of scale of unconsolidated structured entities and nature of the risks associated with the Group's interests in unconsolidated structured entities as of December 31, 2018 and 2019, are as follows:

	2018				
	Structured financing	Investment funds	Trusts	Asset-backed securitization and others	Total
	(In millions of Korean won)				
Total assets of unconsolidated structured entity	₩ 43,775,805	₩ 121,481,888	₩ 519,609	₩ 125,240,129	₩ 291,017,431
Carrying amount on financial statements					
Assets					
Financial assets at fair value					
through profit or loss	129,367	7,934,662	—	3,846,725	11,910,754
Derivative financial assets	—	23,794	—	4,089	27,883
Loans at amortized cost	3,987,339	391,665	34,000	635,840	5,048,844
Financial investments	—	8,636	—	6,040,008	6,048,644
Investment in associates	—	258,594	—	—	258,594
Other assets	1,719	48,872	109,357	17,046	176,994
	<u>4,118,425</u>	<u>8,666,223</u>	<u>143,357</u>	<u>10,543,708</u>	<u>23,471,713</u>
Liabilities					
Deposits	970,890	81,502	—	291,465	1,343,857
Derivative financial liabilities	—	6,232	—	1,285	7,517
Other liabilities	1,334	59	—	28,373	29,766
	<u>972,224</u>	<u>87,793</u>	<u>—</u>	<u>321,123</u>	<u>1,381,140</u>
Maximum exposure to loss ¹					
Holding assets	4,118,425	8,666,223	143,357	10,543,708	23,471,713
Purchase and investment commitments	—	3,345,947	—	1,094,489	4,440,436
Unused credit	6,789	1,450	—	2,211,226	2,219,465
Payment guarantee and loan commitments	1,582,943	—	—	519,633	2,102,576
	<u>₩ 5,708,157</u>	<u>₩ 12,013,620</u>	<u>₩ 143,357</u>	<u>₩ 14,369,056</u>	<u>₩ 32,234,190</u>
Methods of determining the maximum exposure to loss	Loan commitments / investment agreements / purchase commitments and acceptances and guarantees	Investments / loans and capital commitments	Dividends by results trust: Total amount of trust exposure	Providing lines of credit/ purchase commitments/ loan commitments and acceptances and guarantees	

¹ Maximum exposure to loss includes the asset amounts, after deducting loss(provision for assets, impairment losses and others), recognized in the financial statements of the Group.

	2019				
	Structured financing	Investment funds	Trusts	Asset-backed securitization and others	Total
	(In millions of Korean won)				
Total assets of unconsolidated structured entity	₩ 54,206,404	₩ 180,236,568	₩ 2,287,172	₩ 99,012,931	₩ 335,743,075
Carrying amount on financial statements					
Assets					
Financial assets at fair value					
through profit or loss	132,685	9,846,278	—	2,405,228	12,384,191
Derivative financial assets	—	—	—	2,959	2,959
Loans at amortized cost	4,775,723	293,221	266,974	920,863	6,256,781
Financial investments	—	—	—	5,166,578	5,166,578
Investment in associates	—	352,488	—	—	352,488
Other assets	1,876	69,353	93,613	9,181	174,023
	<u>4,910,284</u>	<u>10,561,340</u>	<u>360,587</u>	<u>8,504,809</u>	<u>24,337,020</u>
Liabilities					
Deposits	523,086	90,131	—	409,246	1,022,463
Derivative financial liabilities	—	—	—	228	228
Other liabilities	1,362	78	—	16,169	17,609
	<u>524,448</u>	<u>90,209</u>	<u>—</u>	<u>425,643</u>	<u>1,040,300</u>
Maximum exposure to loss ¹					
Holding assets	4,910,284	10,561,340	360,587	8,504,809	24,337,020
Purchase and investment commitments	38,650	3,980,356	—	945,598	4,964,604
Unused credit	654,203	2,900	28,427	1,927,902	2,613,432
Payment guarantee and loan commitments	1,816,411	7,188	—	600,664	2,424,263
	<u>₩ 7,419,548</u>	<u>₩ 14,551,784</u>	<u>₩ 389,014</u>	<u>₩ 11,978,973</u>	<u>₩ 34,339,319</u>
Methods of determining the maximum exposure to loss	Loan commitments / investment agreements / purchase commitments and acceptances and guarantees	Investments / loans and capital commitments	Dividends by results trust: Total amount of trust exposure	Providing lines of credit/ purchase commitments/ loan commitments and acceptances and guarantees	

¹ Maximum exposure to loss includes the asset amounts, after deducting loss(provision for assets, impairment losses and others), recognized in the financial statements of the Group.

42. Lease

42.1 The amounts recognized in the consolidated statement of financial position

The amounts related to lease recognized in consolidated statement of financial position as of January 1, 2019 and December 31, 2019, are as follows:

	<u>January 1, 2019</u>	<u>December 31, 2019</u>
	(In millions of Korean won)	
Right-of-use property and equipment ¹		
Real estate	₩ 554,363	₩ 518,795
Vehicles	17,557	13,542
Others	17,268	18,543
Right-of-use intangible assets ¹	21,063	9,698
	<u>₩ 610,251</u>	<u>₩ 560,578</u>
Lease liabilities ¹	<u>₩ 555,636</u>	<u>₩ 544,439</u>

¹ It is included in property and equipment, intangible assets and other liabilities.

42.2 The amounts recognized in the consolidated statement of comprehensive income

The amounts related to lease recognized in the consolidated statement of comprehensive income for the year ended December 31, 2019 are as follows:

	<u>2019</u>	
	(In millions of Korean won)	
Depreciation and amortization of right-of-use assets		
Real estate	₩	251,465
Vehicles		19,594
Others		10,345
Intangible asset		9,893
	<u>₩</u>	<u>291,297</u>
Interest expenses on the lease liabilities	₩	12,720
Expense relating to short-term leases		2,209
Expense relating to leases of low-value assets that are not short-term leases		5,416
Expense relating to variable lease payments not included in lease liabilities (included in administrative expenses)		15

The total cash outflow for leases in 2019 was ₩ 228,312 million.

42.3 Finance lease - 2018

42.3.1 The Group as a finance lessee

The future minimum lease payments classified as a finance lease as at December 31, 2018 are as follows:

	<u>2018</u>	
	(In millions of Korean won)	
Net carrying amount of finance lease assets	₩	34,002
Minimum lease payment		
Within 1 year		6,827
1-5 years		3,553
	₩	10,380
Present value of minimum lease payment		
Within 1 year		6,705
1-5 years		3,456
	₩	10,161

42.3.2 The Group as a finance lessor

Total lease investment and the present value of minimum lease payments as of December 31, 2018 and 2019, are as follows:

	<u>2018</u>	
	<u>Total lease investment</u>	<u>Present value of minimum lease payment</u>
	(In millions of Korean won)	
Within 1 year	₩ 710,532	₩ 387,721
1-5 years	1,225,265	565,152
	₩1,935,797	₩ 952,873
	<u>2019</u>	
	<u>Total lease investment</u>	<u>Present value of minimum lease payment</u>
	(In millions of Korean won)	
Within 1 year	₩ 654,104	₩ 367,937
1-5 years	1,085,208	569,939
Later than 5 years	773	748
	₩1,740,085	₩ 938,624

Unearned interest income of finance lease as of December 31, 2018 and 2019 is as follows:

	<u>2018</u>	<u>2019</u>
	(In millions of Korean won)	
Total lease investment	₩1,935,797	₩1,740,085
Net lease investment		
Present value of minimum lease payment	952,873	938,624
Present value of Non-guaranteed residual value	786,359	639,075
	<u>1,739,232</u>	<u>1,577,699</u>
Unearned interest income	₩ 196,565	₩ 162,386

42.4 Operating lease

42.4.1 The Group as an operating lessee

The future minimum lease payments arising from the non-cancellable lease contracts as of December 31, 2018, are as follows:

	<u>2018</u>	
	(In millions of Korean won)	
Minimum lease payment		
Within 1 year	₩	179,384
1-5 years		299,900
Over 5 years		111,906
	<u>₩</u>	<u>591,190</u>
Minimum sublease payment	<u>₩</u>	<u>(6,561)</u>

The lease payment reflected in profit or loss for the years ended December 31, 2017 and 2018, is as follows:

	<u>2017</u>	<u>2018</u>
	(In millions of Korean won)	
Lease payment reflected in profit or loss		
Minimum lease payment	₩208,413	₩221,305
Sublease payment	(2,441)	(1,804)
Total	<u>₩205,972</u>	<u>₩219,501</u>

42.4.2 The Group as an operating lessor

The future minimum lease receipts arising from the non-cancellable lease contracts as of December 31, 2018 and 2019, are as follows:

	<u>2018</u>	<u>2019</u>
	(In millions of Korean won)	
Minimum lease receipts	<u>₩ 304,204</u>	<u>₩ 577,490</u>
Within 1 year	985,097	1,432,354
1-5 years	280,084	682,165
Over 5 years	<u>₩1,569,385</u>	<u>₩2,692,009</u>

43. Related Party Transactions

Profit and loss arising from transactions with related parties for the years ended December 31, 2017, 2018 and 2019, are as follows:

	2017	2018	2019
	(In millions of Korean won)		
Associates and Joint Ventures			
KB Insurance Co., Ltd. ¹			
Interest income	₩ 12	₩ —	₩ —
Interest expense	202	—	—
Fee and commission income	8,994	—	—
Fee and commission expense	1,021	—	—
Gains on financial assets/liabilities at fair value through profit or loss (under IAS 39)	796	—	—
Losses on financial assets/liabilities at fair value through profit or loss (under IAS 39)	18,717	—	—
Other operating income	16,743	—	—
Other operating expense	633	—	—
General and administrative expenses	5,601	—	—
Provision for credit losses	12	—	—
Other non-operating income	51	—	—
Balhae Infrastructure Fund			
Fee and commission income	7,162	6,691	6,743
Korea Credit Bureau Co., Ltd.			
Interest expense	132	127	21
Fee and commission income	1,374	1,194	1,056
Insurance income	—	—	3
Fee and commission expense	2,645	1,909	2,541
General and administrative expenses	2,202	—	—
Provision for credit losses	1	—	—
Other operating expense	—	4	—
KoFC KBIC Frontier Champ 2010-5(PEF)			
Fee and commission income	216	197	—
KB GwS Private Securities Investment Trust			
Fee and commission income	851	851	851
Incheon Bridge Co., Ltd.			
Interest income	25,511	9,426	8,612
Interest expense	292	296	483
Fee and commission income	—	9	—
Fee and commission expense	—	2	7
Insurance income	162	365	284
Gains on financial assets/liabilities at fair value through profit or loss	—	2,655	4,975
Reversal for credit losses	43	6	5
Provision for credit losses	—	1	1
Jaeyang Industry Co., Ltd.			
Interest income	98	—	—
Reversal for credit losses	6	—	—
KoFC POSCO HANHWA KB Shared Growth Private Equity Fund No. 2			
Fee and commission income	481	210	178
Aju Good Technology Venture Fund			
Interest expense	14	30	22

		<u>2017</u>	<u>2018</u>	<u>2019</u>
		(In millions of Korean won)		
KB Star Office Private Real Estate Investment Trust No.1	Interest income	370	370	370
	Interest expense	63	93	208
	Fee and commission income	435	435	435
	Provision for credit losses	3	—	—
RAND Bio Science Co., Ltd.	Interest expense	16	3	5
	Other non-operating expense	—	—	843
Inno Lending Co., Ltd. ¹	Fee and commission income	3	1	—
	Interest expense	1	—	—
KBIC Private Equity Fund No. 3 ¹	Fee and commission income	38	—	—
SY Auto Capital Co., Ltd.	Interest income	828	1,279	1,016
	Interest expense	22	—	1
	Fee and commission income	47	73	34
	Fee and commission expense	2,956	840	389
	Insurance income	29	33	32
	Other operating income	731	621	689
	Other operating expense	128	415	288
	Reversal for credit losses	32	—	13
	Provision for credit losses	—	14	—
	Other non-operating income	51	—	—
Kyobo 7 Special Purpose Acquisition Co., Ltd. ¹	Interest expense	1	—	—
Food Factory Co., Ltd.	Interest income	24	9	41
	Insurance income	3	5	4
	Fee and commission expense	—	1	12
	Gains on financial assets/liabilities at fair value through profit or loss	—	30	60
	Reversal for credit losses	—	1	—
	Provision for credit losses	44	1	1
KB Pre IPO Secondary Venture Fund 1st	Interest expense	60	27	7
	Fee and commission income	83	110	110
Builton Co., Ltd. ¹	Interest income	—	4	1
	Insurance income	1	2	1
	Losses on financial assets/liabilities at fair value through profit or loss	—	1	—
KB Private Equity Fund III	Fee and commission income	457	521	480
Wise Asset Management Co., Ltd.	Interest expense	5	9	2
Acts Co., Ltd.	Interest income	249	—	1
	Insurance income	2	2	1
	Gains on financial assets/liabilities at fair value through profit or loss	—	—	30
	Losses on financial assets/liabilities at fair value through profit or loss	—	1,851	—
	Losses on financial assets/liabilities at fair value through profit or loss (under IAS 39)	220	—	—
	Provision for credit losses	66	—	—
	General and administrative expenses	150	—	—
	Other non-operating expense	—	1,246	—

		2017	2018	2019
		(In millions of Korean won)		
COBI Co., Ltd. ¹	Interest income	183	—	—
	Provision for credit losses	89	—	—
Dongjo Co., Ltd.	Reversal for credit losses	2	31	—
	Insurance income	—	2	2
A-PRO Co., Ltd.	Interest income	—	—	19
	Interest expense	—	1	4
	Fee and commission expense	—	—	17
	Insurance income	—	5	4
POSCO-KB Shipbuilding Fund	Fee and commission income	257	490	490
	Interest expense	3	81	—
Dae-A Leisure Co., Ltd.	Interest expense	1	9	8
Paycoms Co., Ltd.	Interest income	61	10	10
	Insurance income	—	1	1
	Gains on financial assets/liabilities at fair value through profit or loss	—	125	125
	Provision for credit losses	32	—	—
Bungaejangter. Inc. ¹	Interest income	31	60	—
	Provision for credit losses	44	—	—
Faromancorporation Co., Ltd. ¹	Reversal for credit losses	345	—	—
Daesang Techlon Co., Ltd. ¹	Insurance income	1	—	—
Big Dipper Co., Ltd.	Reversal for credit losses	—	2	—
	Provision for credit losses	2	—	—
KB-KDBC New Technology Business Investment Fund	Interest expense	4	39	58
	Fee and commission income	—	322	449
KB-TS Technology Venture Private Equity Fund	Fee and commission income	—	305	730
KB-SJ Tourism Venture Fund	Fee and commission income	—	314	422
JLK INSPECTION Inc. ¹	Interest income	—	6	—
	Interest expense	—	—	1
TESTIAN Inc. ¹	Interest income	—	4	3
	Gains on financial assets/liabilities at fair value through profit or loss	—	83	—
Rainist Co., Ltd.	Fee and commission income	—	—	39
	Interest expense	—	2	—
IWON ALLOY CO., LTD.	Insurance income	—	1	2
RMGP Bio-Pharma Investment Fund, L.P.	Other non-operating income	—	10	33
	Gains on financial assets/liabilities at fair value through profit or loss	—	—	947
	Losses on financial assets/liabilities at fair value through profit or loss	—	—	2,120
Hasys.	Gains on financial assets/liabilities at fair value through profit or loss	—	—	136
	Losses on financial assets/liabilities at fair value through profit or loss	—	136	—
	Insurance income	—	4	50

		<u>2017</u>	<u>2018</u>	<u>2019</u>
		(In millions of Korean won)		
KB-Brain KOSDAQ Scale-up New Technology Business Investment Fund	Losses on financial assets/liabilities at fair value through profit or loss	—	—	72
	Interest expense	—	21	89
	Fee and commission income	—	108	735
	Interest expense	—	25	59
Spark Biopharma, Inc. ¹ KB No.8 Special Purpose Acquisition Company ¹	Interest income	75	—	—
	Interest expense	36	17	—
	Losses on financial assets/liabilities at fair value through profit or loss	—	2,330	—
	Losses on financial assets/liabilities at fair value through profit or loss (under IAS 39)	170	—	—
KB No.9 Special Purpose Acquisition Company ¹	Interest income	76	—	—
	Interest expense	33	43	(23)
	Losses on financial assets/liabilities at fair value through profit or loss	—	2,256	—
	Losses on financial assets/liabilities at fair value through profit or loss (under IAS 39)	200	—	—
	Gains on financial assets/liabilities at fair value through profit or loss	—	48	—
	Interest income	48	—	—
KB No.10 Special Purpose Acquisition Company ¹	Interest expense	24	30	18
	Losses on financial assets/liabilities at fair value through profit or loss (under IAS 39)	103	—	—
	Gains on financial assets/liabilities at fair value through profit or loss	—	121	3,066
	Interest income	22	—	—
KB No.11 Special Purpose Acquisition Company ¹	Interest expense	—	12	9
	Fee and commission income	150	—	—
	Gains on financial assets/liabilities at fair value through profit or loss	—	56	118
	Gains on financial assets/liabilities at fair value through profit or loss (under IAS 39)	711	—	—
	Fee and commission income	—	—	175
	Gains on financial assets/liabilities at fair value through profit or loss	—	—	1,384
KB No.17 Special Purpose Acquisition Company	Interest expense	—	—	28
	Fee and commission income	—	—	263
KB No.18 Special Purpose Acquisition Company	Gains on financial assets/liabilities at fair value through profit or loss	—	—	1,898
	Interest expense	—	—	28

		<u>2017</u>	<u>2018</u>	<u>2019</u>
		(In millions of Korean won)		
KB No.19 Special Purpose Acquisition Company	Fee and commission income	—	—	150
	Gains on financial assets/liabilities at fair value through profit or loss	—	—	1,044
	Interest expense	—	—	8
KB No.20 Special Purpose Acquisition Company	Interest expense	—	—	3
KB SPROTT Renewable Private Equity FundI	Fee and commission income	—	—	490
KB-Stonebridge Secondary Private Equity FundI	Fee and commission income	—	—	1,444
	Losses on financial assets/liabilities at fair value through profit or loss	—	—	32
KOSESEUJITO CO., LTD	Losses on financial assets/liabilities at fair value through profit or loss	—	—	5
CWhy Inc	Insurance income	—	—	3
Stratio, Inc.	Interest expense	—	—	1
NEXOLON CO.,LTD. ¹	Interest expense	—	—	2
CellinCells Co., Ltd	Interest expense	—	—	19
Bomapp Inc.	Interest expense	—	—	1
	Insurance income	—	—	1
KB Social Impact Investment Association	Fee and commission income	—	—	121
KB-Solidus Global Healthcare Fund	Fee and commission income	—	—	81
BNF Corporation Ltd.	Interest income	—	—	7
	Gains on financial assets/liabilities at fair value through profit or loss	—	—	158
	Provision for credit losses	—	—	1
KB Cape No.1 Private Equity Fund	Fee and commission income	—	—	97
ALS Co., Ltd. ¹	Interest income	—	—	194
Hyundai-Tongyang Agrifood Private Equity Fund ¹	Fee and commission income	187	151	—
KB IGen Private Equity Fund No.1	Fee and commission income	1,266	—	—
Keystone-Hyundai Securities No. 1 Private Equity Fund	Fee and commission income	94	116	90
MJT&I Co., Ltd.	Insurance income	—	—	1
Doosung Metal Co., Ltd.	Insurance income	1	1	—
Other			
Retirement pension	Interest expense	3	3	4
	Fee and commission income	795	876	939

¹ Excluded from the Group's related party as of December 31, 2019.

Meanwhile, the Group purchased installment financial assets from SY Auto Capital Co., Ltd. amounts to ₩ 881,502 million and ₩ 1,393,346 million for the years ended December 31, 2018 and 2019.

Details of receivables and payables, and related allowances for loan losses arising from the related party transactions as of December 31, 2018 and 2019, are as follows:

		<u>2018</u>	<u>2019</u>
		(In millions of Korean won)	
Associates and joint ventures			
Balhae Infrastructure Fund	Other assets	₩ 1,708	₩ 1,718
Korea Credit Bureau Co., Ltd.	Loans at amortized cost (Gross amount)	22	43
	Deposits	15,674	17,966
	Provisions	—	1
	Insurance contract liabilities	—	2
	Other liabilities	98	—
KB GwS Private Securities Investment Trust	Other assets	641	641
Incheon Bridge Co., Ltd.	Financial assets at fair value through profit or loss	32,882	37,857
	Loans at amortized cost (Gross amount)	158,206	147,707
	Allowances for loan losses	15	12
	Other assets	736	520
	Deposits	43,666	45,447
	Provisions	10	10
	Insurance contract liabilities	113	108
	Other liabilities	24	346
KoFC POSCO HANHWA KB Shared Growth Private Equity Fund No. 2	Other assets	90	89
Jungdo Co., Ltd.	Deposits	4	4
Dongjo Co., Ltd.	Insurance contract liabilities	2	1
Dae-A Leisure Co., Ltd.	Deposits	1,229	753
	Other liabilities	7	14
Aju Good Technology Venture Fund	Deposits	6,439	5,456
	Other liabilities	2	2
Doosung Metal Co., Ltd.	Deposits	3	—
KB Star Office Private Real Estate Investment Trust No.1	Loans at amortized cost (Gross amount)	10,000	10,000
	Allowances for loan losses	4	4
	Other assets	136	136
	Deposits	7,946	8,293
	Other liabilities	58	66
KB-TS Technology Venture Private Equity Fund	Financial assets at fair value through profit or loss	—	3,540
KB-Brain KOSDAQ Scale-up New Technology Business Investment Fund	Financial assets at fair value through profit or loss	—	2,678
	Deposits	18,813	13,118
	Other liabilities	7	4
KB-Stonebridge Secondary Private Equity Fund	Financial assets at fair value through profit or loss	—	713
KB IGen Private Equity Fund No.1	Deposits	148	147
KB Cape No.1 Private Equity Fund	Financial assets at fair value through profit or loss	—	2,000
RAND Bio Science Co., Ltd.	Deposits	232	4,452
	Loans at amortized cost (Gross amount)	1	1

		2018	2019
		(In millions of Korean won)	
SY Auto Capital Co., Ltd.	Loans at amortized cost (Gross amount)	48,356	41,990
	Allowances for loan losses	18	4
	Other assets	94	63
	Deposits	5	8
	Provisions	11	13
	Insurance contract liabilities	6	13
	Other liabilities	102	70
Food Factory Co., Ltd.	Financial assets at fair value through profit or loss	530	590
	Loans at amortized cost (Gross amount)	200	1,992
	Allowances for loan losses	1	2
	Other assets	1	1
	Deposits	68	1,073
	Insurance contract liabilities	3	4
	Other liabilities	—	1
KB Pre IPO Secondary Venture Fund 1st	Deposits	1,115	2,955
	Other liabilities	1	1
Builton Co., Ltd. ¹	Other assets	1	—
	Financial assets at fair value through profit or loss	399	—
	Loans at amortized cost (Gross amount)	2	—
	Deposits	7	—
	Insurance contract liabilities	1	—
Wise Asset Management Co., Ltd.	Deposits	696	21
	Other liabilities	2	—
Acts Co., Ltd.	Intangible assets	530	—
	Deposits	29	1
	Other liabilities	530	100
Paycoms Co., Ltd.	Other assets	1	1
	Financial assets at fair value through profit or loss	1,032	1,157
	Deposits	1	1
	Loans at amortized cost (Gross amount)	5	11
Big Dipper Co., Ltd.	Deposits	182	6
	Deposits	7,088	7,054
KB-KDBC Pre-IPO New Technology Business Investment Fund	Other liabilities	3	4
	Loans at amortized cost (Gross amount)	—	2,019
A-PRO Co., Ltd.	Insurance contract liabilities	2	2
	Deposits	2,201	3,201
	Other liabilities	—	1
JLK Inspection, Inc. ¹	Financial assets at fair value through profit or loss	7,300	—
TESTIAN Inc. ¹	Other assets	1	—
	Financial assets at fair value through profit or loss	615	—
IWON ALLOY CO., LTD.	Insurance contract liabilities	2	1
CARLIFE CO., LTD.	Deposits	2	—
COMPUTERLIFE CO., LTD.	Deposits	1	1

		2018	2019
		(In millions of Korean won)	
RMGP Bio-Pharma Investment Fund, L.P.	Financial assets at fair value through profit or loss	3,051	3,419
	Other liabilities	35	2
RMGP Bio-Pharma Investment, L.P.	Financial assets at fair value through profit or loss	4	8
Hasys.	Financial assets at fair value through profit or loss	5,864	6,000
	Insurance contract liabilities	29	37
SKYDIGITAL INC	Deposits	16	25
Rainist Co., Ltd.	Financial assets at fair value through profit or loss	2,504	7,504
	Deposits	1	—
Spark Biopharma, Inc. ¹	Financial assets at fair value through profit or loss	6,500	—
	Deposits	2,630	—
	Other liabilities	19	—
HEYBIT, Inc.	Financial assets at fair value through profit or loss	250	250
Stratio, Inc.	Financial assets at fair value through profit or loss	1,000	1,000
	Deposits	516	726
Honest Fund, Inc.	Financial assets at fair value through profit or loss	—	3,999
CellinCells Co., Ltd.	Financial assets at fair value through profit or loss	—	2,000
	Loans at amortized cost (Gross amount)	—	4
	Deposits	—	1,545
	Other liabilities	—	1
Joyang Industry Co., Ltd.	Deposits	—	2
KB No.9 Special Purpose Acquisition Company ¹	Financial assets at fair value through profit or loss	2,481	—
	Deposits	2,275	—
	Other liabilities	42	—
KB No.10 Special Purpose Acquisition Company ¹	Financial assets at fair value through profit or loss	2,025	—
	Derivative financial assets	1,659	—
	Deposits	1,666	—
	Other liabilities	11	—
KB No.11 Special Purpose Acquisition Company ¹	Financial assets at fair value through profit or loss	737	—
	Derivative financial assets	873	—
	Deposits	658	—
	Other liabilities	2	—
KB No.17 Special Purpose Acquisition Company	Financial assets at fair value through profit or loss	—	2,683
	Deposits	—	1,742
	Other liabilities	—	27
KB No.18 Special Purpose Acquisition Company	Financial assets at fair value through profit or loss	—	3,786
	Deposits	—	2,140
	Other liabilities	—	28

		2018	2019	
		(In millions of Korean won)		
KB No.19 Special Purpose Acquisition Company	Financial assets at fair value through profit or loss	—	2,043	
	Deposits	—	1,093	
	Other liabilities	—	7	
KB No.20 Special Purpose Acquisition Company	Financial assets at fair value through profit or loss	—	1,499	
	Deposits		1,984	
	Other liabilities		3	
KOSESEUJITO CO., LTD.	Financial assets at fair value through profit or loss	—	2,930	
CWhy Inc.	Financial assets at fair value through profit or loss	—	2,000	
Bomapp Inc.	Financial assets at fair value through profit or loss	—	1,999	
	Insurance contract liabilities	—	2	
ZOYI corporation INC.	Financial assets at fair value through profit or loss	—	2,000	
MitoImmune Therapeutics	Financial assets at fair value through profit or loss	—	5,000	
KB-Solidus Global Healthcare Fund	Financial assets at fair value through profit or loss	—	10,405	
KB Social Impact Investment Association	Other assets	—	73	
Fabric Types CO.,LTD.	Financial assets at fair value through profit or loss	—	1,845	
	Deposits	—	395	
	Other liabilities	—	2	
BNF Corporation Ltd.	Financial assets at fair value through profit or loss	—	2,259	
	Loans at amortized cost (Gross amount)	—	1,400	
	Other assets	—	2	
	Deposits	—	947	
	Other liabilities	—	6	
	Key management	Loans at amortized cost (Gross amount)	2,404	3,538
		Allowances for loan losses	—	1
	Other assets	2	3	
	Deposits	13,818	15,339	
	Insurance contract liabilities	1,092	1,984	
	Other liabilities	233	289	
Other				
Retirement pension	Other assets	331	366	
	Other liabilities	16,388	17,620	

¹ Excluded from the Group's related party as of December 31, 2019.

According to IAS 24, the Group includes associates, key management (including family members), and post-employment benefit plans of the Group and its related party companies in the scope of related parties. Additionally, the Group discloses balances (receivables and payables) and other amounts arising from the related party transactions in the notes to the consolidated financial statements. Refer to Note 13 for details on investments in associates and joint ventures.

Significant lending transactions with related parties for the years ended December 31, 2018 and 2019, are as follows:

	2018 ¹			
	<u>Beginning</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u>
	(In millions of Korean won)			
Associates				
Korea Credit Bureau Co., Ltd.	₩ 22	₩ 22	₩ (22)	₩ 22
Incheon Bridge Co., Ltd.	200,414	5,388	(14,714)	191,088
Dongjo Co., Ltd.	116	—	(116)	—
KB Star Office Private Real Estate Investment Trust No.1	10,000	—	—	10,000
RAND Bio Science Co., Ltd.	1	1	(1)	1
Inno Lending Co., Ltd. ²	2	—	(2)	—
SY Auto Capital Co., Ltd.	40,057	50,109	(41,810)	48,356
Food Factory Co., Ltd.	679	51	—	730
Builton Co., Ltd. ²	1	402	(2)	401
Acts Co., Ltd.	1,927	—	(1,927)	—
Bungaejanter. Inc. ²	425	—	(425)	—
Paycoms Co., Ltd.	1,066	1,032	(1,066)	1,032
Big Dipper Co., Ltd.	6	5	(6)	5
JLK INSPECTION Inc. ²	—	7,300	—	7,300
TESTIAN Inc. ²	—	615	—	615
RMGP Bio-Pharma Investment Fund, L.P.	—	3,051	—	3,051
RMGP Bio-Pharma Investment, L.P.	—	4	—	4
Hasys.	—	6,000	(136)	5,864
Rainist Co., Ltd.	—	2,504	—	2,504
Spark Biopharma, Inc. ²	—	6,500	—	6,500
HEYBIT, Inc.,	—	250	—	250
Stratio, Inc.	—	1,000	—	1,000
KB No.8 Special Purpose Acquisition Company ²	2,296	—	(2,296)	—
KB No.9 Special Purpose Acquisition Company ²	2,356	2,481	(2,356)	2,481
KB No.10 Special Purpose Acquisition Company ²	1,603	2,025	(1,603)	2,025
KB No.11 Special Purpose Acquisition Company ²	697	737	(697)	737
Key management	1,665	1,509	(836)	2,338

¹ Transactions from operating activities with related parties (i.e. such as settlement, daily overdraft loans, etc) are excluded.

² Excluded from the Group's related party as of December 31, 2019.

	2019			
	Beginning	Increase	Decrease	Ending
	(In millions of Korean won)			
Associates				
Korea Credit Bureau Co., Ltd.	₩ 22	₩ 43	₩ (22)	₩ 43
Incheon Bridge Co., Ltd.	191,088	4,982	(10,506)	185,564
KB Star Office Private Real Estate Investment Trust No.1	10,000	—	—	10,000
KB-TS Technology Venture Private Equity Fund	—	3,540	—	3,540
KB-Brain KOSDAQ Scale-up New Technology Business Investment Fund	—	2,678	—	2,678
KB-Stonebridge Secondary Private Equity Fund	—	713	—	713
KB Cape No.1 Private Equity Fund	—	2,000	—	2,000
RAND Bio Science Co., Ltd.	1	1	(1)	1
SY Auto Capital Co., Ltd.	48,356	28,088	(34,454)	41,990
Food Factory Co., Ltd.	730	1,872	(20)	2,582
Builton Co., Ltd. ²	401	—	(401)	—
Acts Co., Ltd.	—	68	(68)	—
Paycoms Co., Ltd.	1,032	125	—	1,157
Big Dipper Co., Ltd.	5	11	(5)	11
A-PRO Co., Ltd.	—	2,019	—	2,019
JLK INSPECTION Inc. ²	7,300	(7,300)	—	—
TESTIAN Inc. ²	615	24	(639)	—
RMGP Bio-Pharma Investment Fund, L.P.	3,051	368	—	3,419
RMGP Bio-Pharma Investment, L.P.	4	4	—	8
Hasys.	5,864	136	—	6,000
Rainist Co., Ltd.	2,504	5,000	—	7,504
Spark Biopharma, Inc. ²	6,500	(6,500)	—	—
HEYBIT, Inc.,	250	—	—	250
Stratio, Inc.	1,000	—	—	1,000
Honest Fund, Inc.	—	3,999	—	3,999
CellinCells Co., Ltd.	—	2,004	—	2,004
KB No.9 Special Purpose Acquisition Company ²	2,481	—	(2,481)	—
KB No.10 Special Purpose Acquisition Company ²	2,025	—	(2,025)	—
KB No.11 Special Purpose Acquisition Company ²	737	—	(737)	—
KB No.17 Special Purpose Acquisition Company	—	2,683	—	2,683
KB No.18 Special Purpose Acquisition Company	—	3,786	—	3,786
KB No.19 Special Purpose Acquisition Company	—	2,043	—	2,043
KB No.20 Special Purpose Acquisition Company	—	1,499	—	1,499
KOSESEUJITO CO., LTD.	—	2,930	—	2,930
CWhy Inc.	—	2,000	—	2,000
Bomapp Inc.	—	1,999	—	1,999
ZOYI corporation INC.	—	2,000	—	2,000
MitoImmune Therapeutics	—	5,000	—	5,000
KB-Solidus Global Healthcare Fund	—	10,405	—	10,405
Fabric Types CO.,LTD	—	1,845	—	1,845
BNF Corporation Ltd.	—	3,659	—	3,659
Key management	2,404	2,006	(872)	3,538

¹ Transactions from operating activities with related parties (i.e. such as settlement, daily overdraft loans, etc) are excluded.

² Excluded from the Group's related party as of December 31, 2019.

Significant borrowing transactions with related parties for the years ended December 31, 2018 and 2019, are as follows:

	2018				Ending
	Beginning	Borrowing	Repayment	Others ¹	
	(In millions of Korean won)				
Associates					
Korea Credit Bureau Co., Ltd.	₩25,513	₩ 8,000	₩(16,000)	₩(1,839)	₩15,674
Incheon Bridge Co., Ltd.	48,795	1,260	(1,270)	(5,119)	43,666
Terra Co., Ltd.	10	—	—	(10)	—
Jungdong Steel Co., Ltd.	3	—	—	(3)	—
Doosung Metal Co., Ltd.	—	—	—	3	3
Jungdo Co., Ltd.	4	—	—	—	4
Dae-A Leisure Co., Ltd.	466	479	(466)	750	1,229
Daesang Techlon Co., Ltd. ²	2	—	—	(2)	—
CARLIFE CO., LTD.	—	—	—	2	2
COMPUTERLIFE CO., LTD.	—	—	—	1	1
SKYDIGITAL INC	—	—	—	16	16
Aju Good Technology Venture Fund	2,771	—	—	3,668	6,439
KB-KDBC New Technology Business Fund	7,500	—	—	(412)	7,088
KB-Brain KOSDAQ Scale-up New Technology Business Investment Fund	—	—	—	18,813	18,813
KB Star Office Private Real Estate Investment Trust No.1	6,962	351	—	633	7,946
SY Auto Capital Co., Ltd.	6	—	—	(1)	5
KB No.8 Special Purpose Acquisition Company ² . . .	2,339	—	(2,300)	(39)	—
KB No.9 Special Purpose Acquisition Company ² . . .	2,309	2,266	(2,234)	(66)	2,275
KB No.10 Special Purpose Acquisition Company ² . .	1,698	1,618	(1,618)	(32)	1,666
KB No.11 Special Purpose Acquisition Company ² . .	530	530	(530)	128	658
RAND Bio Science Co., Ltd.	1,032	—	(500)	(300)	232
Wise Asset Management Co., Ltd.	340	2,366	(2,008)	(2)	696
Builton Co., Ltd. ²	26	—	—	(19)	7
Food Factory Co., Ltd.	1	—	—	67	68
Acts Co., Ltd.	4	—	—	25	29
Paycoms Co., Ltd.	—	—	—	1	1
Big Dipper Co., Ltd.	473	—	—	(291)	182
A-PRO Co., Ltd.	—	—	—	2,201	2,201
Rainist Co., Ltd.	—	—	—	1	1
Spark Biopharma, Inc. ²	—	4,300	(3,300)	1,630	2,630
KB IGen Private Equity Fund No.1	—	—	—	148	148
KB Pre IPO Secondary Venture Fund 1st	2,690	2,000	(4,000)	425	1,115
POSCO-KB Shipbuilding Fund	—	32,800	(32,800)	—	—
Inno Lending Co., Ltd. ²	41	—	—	(41)	—
Key management	8,260	7,587	(5,283)	264	10,828

¹ Transactions from operating activities with related parties (i.e. such as settlement, deposit on demand, etc.) are netted.

² Excluded from the Group's related party as of December 31, 2019.

2019

	<u>Beginning</u>	<u>Borrowing</u>	<u>Repayment</u>	<u>Others¹</u>	<u>Ending</u>
	(In millions of Korean won)				
Associates					
Korea Credit Bureau Co., Ltd.	₩15,674	₩ —	₩ (3,000)	₩ 5,292	₩17,966
Incheon Bridge Co., Ltd.	43,666	25,260	(5,260)	(18,219)	45,447
Doosung Metal Co., Ltd.	3	—	—	(3)	—
Jungdo Co., Ltd.	4	—	—	—	4
Dae-A Leisure Co., Ltd.	1,229	—	—	(476)	753
CARLIFE CO.,LTD.	2	—	—	(2)	—
COMPUTERLIFE CO.,LTD.	1	—	—	—	1
SKYDIGITAL INC	16	—	—	9	25
Joyang Industry Co., Ltd.	—	—	—	2	2
Aju Good Technology Venture Fund	6,439	—	—	(983)	5,456
KB-KDBC New Technology Business Fund	7,088	15,000	(10,000)	(5,034)	7,054
KB-Brain KOSDAQ Scale-up New Technology Business Investment Fund	18,813	—	—	(5,695)	13,118
KB Star Office Private Real Estate Investment Trust No.1	7,946	5,018	(5,072)	401	8,293
SY Auto Capital Co., Ltd.	5	—	—	3	8
KB No.9 Special Purpose Acquisition Company ² ...	2,275	—	(2,266)	(9)	—
KB No.10 Special Purpose Acquisition Company ² ..	1,666	—	(1,618)	(48)	—
KB No.11 Special Purpose Acquisition Company ² ..	658	—	(530)	(128)	—
KB No.17 Special Purpose Acquisition Company ...	—	1,500	—	242	1,742
KB No.18 Special Purpose Acquisition Company ...	—	2,200	(100)	40	2,140
KB No.19 Special Purpose Acquisition Company ...	—	1,000	—	93	1,093
KB No.20 Special Purpose Acquisition Company ...	—	1,500	—	484	1,984
RAND Bio Science Co., Ltd.	232	1,900	—	2,320	4,452
Wise Asset Management Co., Ltd.	696	—	(682)	7	21
Builton Co., Ltd. ²	7	—	—	(7)	—
Food Factory Co., Ltd.	68	—	—	1,005	1,073
Acts Co., Ltd.	29	—	—	(28)	1
Paycoms Co., Ltd.	1	—	—	—	1
Big Dipper Co., Ltd.	182	—	—	(176)	6
A-PRO Co., Ltd.	2,201	—	—	1,000	3,201
Rainist Co., Ltd.	1	—	—	(1)	—
Spark Biopharma, Inc. ²	2,630	17,000	(9,000)	(10,630)	—
Stratio, Inc.	516	—	—	210	726
NEXOLON CO.,LTD. ²	—	—	(200)	200	—
CellinCells Co., Ltd.	—	—	—	1,545	1,545
KB IGen Private Equity Fund No.1	148	—	—	(1)	147
KB Pre IPO Secondary Venture Fund 1st	1,115	—	—	1,840	2,955
Fabric Types CO.,LTD.	—	—	—	395	395
BNF Corporation Ltd.	—	—	—	947	947
Key management	13,818	13,520	(14,611)	2,611	15,338

¹ Transactions from operating activities with related parties (i.e. such as settlement, daily overdraft loans, etc) are excluded.

² Excluded from the Group's related party as of December 31, 2019.

Significant investment and collection transaction with related parties for the year ended December 31, 2018 and 2019 are as follows:

	2018	
	Equity investments	Withdrawal and others
	(In millions of Korean won)	
Korea Credit Bureau Co., Ltd.	₩ —	₩ 113
Balhae Infrastructure Company	4,645	8,623
Daesang Techlon Co.,Ltd. ¹	—	42
PT Bank Bukopin TBK	116,422	—
KoFC KBIC Frontier Champ 2010-5(PEF) ¹	—	4,800
KB GwS Private Securities Investment Trust	—	6,386
Aju Good Technology Venture Fund	9,808	—
KB-KDBC Pre-IPO New Technology Business Fund	10,000	—
KB-TS Technology Venture Private Equity Fund	14,224	—
KB-Brain KOSDAQ Scale-up New Technology Business Investment Fund ..	8,000	—
KB Star office Private real estate Investment Trust No.1	—	1,162
KB No.8 Special Purpose Acquisition Company ¹	—	5
Hyundai-Tongyang Agrifood Private Equity Fund ¹	—	82
KB IGen Private Equity Fund No.1	—	3
GH Real Estate I LP	17,678	—
KB-SJ Tourism Venture Fund	1,500	—
CUBE Growth Fund No.2 ¹	1,300	1,300
UNION Media Commerce Fund	1,000	—

¹ Excluded from the Group's related party as of December 31, 2019.

	2019	
	Equity investments	Withdrawal and others
	(In millions of Korean won)	
Korea Credit Bureau Co., Ltd.	₩ —	₩ 135
Balhae Infrastructure Company	592	6,855
KoFC KBIC Frontier Champ 2010-5(PEF) ¹	—	138
KB GwS Private Securities Investment Trust	—	7,276
Aju Good Technology Venture Fund	1,960	—
POSCO-KB Shipbuilding Fund	2,500	—
KB-KDBC Pre-IPO New Technology Business Fund	5,000	—
KB-TS Technology Venture Private Equity Fund	7,840	2,240
KB-SJ Tourism Venture Fund	1,500	—
KB-Brain KOSDAQ Scale-up New Technology Business Investment Fund	14,000	—
KB-UTC Inno-Tech Venture Fund	450	—
KB-Solidus Global Healthcare Fund	10,400	13,520
KB Star office Private real estate Investment Trust No.1	—	1,275
KB Cape No.1 Private Equity Fund	2,000	—
KB No.9 Special Purpose Acquisition Company ¹	—	16
KB No.17 Special Purpose Acquisition Company	1	—
KB No.18 Special Purpose Acquisition Company	1	—
KB No.19 Special Purpose Acquisition Company	1	—
KB No.20 Special Purpose Acquisition Company	1	—
KB SPROTT Renewable Private Equity Fund	1,667	—
KB-Stonebridge Secondary Private Equity Fund	7,070	1,855
KBSP 4th Private Investment Partnership	6,100	—
KB Social Impact Investment Association	1,500	—

¹ Excluded from the Group's related party as of December 31, 2019.

Unused commitments to related parties as of December 31, 2018 and 2019, are as follows:

		2018	2019
		(In millions of Korean won) (US Dollar)	
Associates and joint ventures			
Balhae Infrastructure Fund	Purchase of security investment	₩ 10,453	₩ 7,327
Korea Credit Bureau Co., Ltd.	Unused commitments of credit card	108	557
KoFC KBIC Frontier Champ 2010-5(PEF) ¹	Purchase of security investment	2,150	—
	Preferred loss allowance agreement	10,000	—
KB GwS Private Securities investment Trust	Purchase of security investment	876	876
Aju Good Technology Venture Fund	Purchase of security investment	1,960	1,154
Incheon Bridge Co., Ltd.	Loan commitments in Korean won	20,000	20,000
	Unused commitments of credit card	94	93
KoFC POSCO HANHWA KB Shared Growth Private Equity Fund No. 2	Purchase of security investment	12,550	12,550
	Preferred loss allowance agreement	10,000	10,000
SY Auto Capital Co., Ltd.	Loan commitments in Korean won	6,700	8,100
	Unused commitments of credit card	94	60
KB No.9 Special Purpose Acquisition Company ¹	Unused commitments of credit card	1	—
KB No.10 Special Purpose Acquisition Company ¹	Unused commitments of credit card	5	—
KB No.18 Special Purpose Acquisition Company	Unused commitments of credit card	—	15
KB No.19 Special Purpose Acquisition Company	Unused commitments of credit card	—	1
CellinCells Co., Ltd	Unused commitments of credit card	—	20
RAND Bio Science Co., Ltd.	Unused commitments of credit card	24	24
Builton Co., Ltd. ¹	Unused commitments of credit card	3	—
Food Factory Co., Ltd.	Unused commitments of credit card	11	25
Big Dipper Co., Ltd.	Unused commitments of credit card	95	89
KB Pre IPO Secondary Venture Fund 1st	Preferred loss allowance agreement	1,671	1,671
POSCO-KB Shipbuilding Fund	Purchase of security investment	7,500	5,000
KB-KDBC New Technology Business Investment Fund	Purchase of security investment	5,000	—
KB-TS Technology Venture Private Equity Fund	Purchase of security investment	13,776	5,936
KB-SJ Tourism Venture Fund	Purchase of security investment	3,500	2,000
KB-Brain KOSDAQ Scale-up New Technology Business Investment Fund	Purchase of security investment	32,000	18,000
KB SPROTT Renewable Private Equity Fund I	Purchase of security investment	—	22,833
KB-Stonebridge Secondary Private Equity Fund	Purchase of security investment	—	27,930
KB Social Impact Investment Association	Purchase of security investment	—	3,000
BNF Corporation Ltd.	Loan commitments in Korean won	—	360
A-PRO Co., Ltd.	Unused commitments of credit card	—	96
KB-UTC Inno-Tech Venture Fund	Purchase of security investment	—	22,050
KB-Solidus Global Healthcare Fund	Purchase of security investment	—	24,700
RMGP Bio-Pharma Investment Fund, L.P.	Purchase of security investment	USD 10,271,257	USD 8,911,002
RMGP Bio-Pharma Investment, L.P.	Purchase of security investment	USD 15,847	USD 13,150
Key management	Loan commitments in Korean won	1,832	1,695

¹ Excluded from the Group's related party as of December 31, 2019.

Compensation to key management for the years ended December 31, 2017, 2018 and 2019, are as follows:

	2017			
	Short-term employee benefits	Post-employment benefits	Share-based payments	Total
	(In millions of Korean won)			
Registered directors (executive)	₩ 2,026	₩ 87	₩ 2,991	₩ 5,104
Registered directors (non-executive)	896	—	—	896
Non-registered directors	8,420	338	14,610	23,368
Total	₩ 11,342	₩ 425	₩ 17,601	₩29,368

	2018			
	Short-term employee benefits	Post-employment benefits	Share-based payments	Total
	(In millions of Korean won)			
Registered directors (executive)	₩ 7,757	₩ 418	₩ 4,213	₩12,388
Registered directors (non-executive)	960	—	—	960
Non-registered directors	7,135	273	3,314	10,722
Total	₩ 15,852	₩ 691	₩ 7,527	₩24,070

	2019			
	Short-term employee benefits	Post-employment benefits	Share-based payments	Total
	(In millions of Korean won)			
Registered directors (executive)	₩ 8,540	₩ 425	₩ 7,434	₩16,399
Registered directors (non-executive)	1,030	—	—	1,030
Non-registered directors	9,157	360	7,510	17,027
Total	₩ 18,727	₩ 785	₩ 14,944	₩34,456

Collateral received from related parties as of December 31, 2018 and 2019, are as follows:

	2018	2019
	(In millions of Korean won)	
Associates		
KB Star Office Private Real		
Estate Investment Trust No.1	Real estate ₩ 13,000	₩ 13,000
Key management		
	Time deposits and others 401	192
	Real estate 3,182	2,922

As of December 31, 2019, Incheon Bridge Co., Ltd., a related party, provides fund management account, insurance for civil engineering completion, and management rights as senior collateral amounting to ₩ 611,000 million to a financial syndicate that consists of the Group and five other institutions, and as subordinated collateral amounting to ₩ 384,800 million to subordinated debt holders that consist of the Group and two other institutions. Also, it provides certificate of credit guarantee amounting to ₩ 400,000 million as collateral to a financial syndicate consisting of the Group and five other institutions

44. Changes in Accounting Policies—Implementation of IFRS 16 Leases

The Group applied IFRS 16 retrospectively as of January 1, 2019. However, the financial statements for the year ended 2018 was not restated using the method allowed by transitional provisions. Therefore reclassification and adjustments under the new IFRS were recognized in the financial statements beginning on January 1, 2019.

A lessee shall apply this standard to its leases either:

- retrospectively to each prior reporting period presented applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (Full retrospective application); or
- retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

The Group applied IFRS 16 retrospectively with recognizing the cumulative effect of initial adoption of the standard as at January 1, 2019. The Group did not restate any comparative financial statements.

For leases previously classified as ‘finance leases’, the Group recognized the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. The remeasurements to the lease liabilities were recognized as adjustments to the related right-of-use assets immediately after the date of initial application.

(In millions of Korean won)

	<u>January 1, 2019</u>
Right-of-use asset	
Operating lease commitments as of December 31, 2018 ¹	₩ 576,249
Add : Finance lease asset recognized at December 31, 2018	34,002
Right-of use asset recognized as of the date of initial application	<u>₩ 610,251</u>
Lease liability	
Operating lease commitments as of December 31, 2018	₩ 586,882
Discounted amount using the lessee’s incremental borrowing rate ² at the date of initial application	545,475
Add : Finance lease liability recognized at December 31, 2018	10,161
Lease liabilities recognized as of the date of initial application	<u>₩ 555,636</u>

¹ The amount included lease contract related provisions for asset retirement obligation and other assets/liabilities according to the adoption of IFRS.

² The incremental borrowing rate is 1.45%~6.95%.

The difference between the amount of the right-of-use asset and the lease liability is adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statement of financial position immediately before the date of initial application.

45. Approval of Issuance of the Financial Statements

The issuance of the Group’s consolidated financial statements as of and for the year ended December 31, 2019, was initially approved on February 6, 2020 and re-approved due to revision on March 4, 2020 by the Board of Directors.

46. Parent Company Information

The following tables present the Parent Company Only financial information:

Condensed Statements of Financial Position

	<u>Dec. 31 2018</u>	<u>Dec. 31 2019</u>
	(In millions of Korean won)	
Assets		
Cash and due from financial institutions	₩ 344,302	₩ 18,537
Financial assets at fair value through profit or loss	289,179	413,909
Loans at amortized cost	50,000	120,000
Investments in subsidiaries ¹		
Banking subsidiaries	14,821,721	14,821,721
Nonbanking subsidiaries.	9,240,395	9,340,395
Investments in associate ¹	—	—
Other assets	877,477	632,074
Total assets	<u>₩25,623,074</u>	<u>₩25,346,636</u>
Liabilities and shareholders' equity		
Debts	300,000	—
Debentures	5,373,266	5,543,446
Other liabilities	878,573	621,291
Shareholders' equity	19,071,235	19,181,899
Total liabilities and shareholders' equity	<u>₩25,623,074</u>	<u>₩25,346,636</u>

¹ Investments in subsidiaries and associate were accounted at cost method in accordance with IAS 27.

² The condensed statement of financial position as of December 31, 2019 are prepared in accordance with IFRS 16, and the comparatives for the year ended December 31, 2018 has not been restated.

Condensed Statements of Comprehensive Income

	<u>2017</u>	<u>2018¹</u>	<u>2019¹</u>
	(In millions of Korean won)		
Income			
Dividends from subsidiaries	₩693,660	₩1,089,556	₩926,934
Dividends from an associate	15,884	—	—
Interest from subsidiaries	3,207	5,710	3,618
Other income	15,147	20,940	22,709
Total income	<u>727,898</u>	<u>1,116,206</u>	<u>953,261</u>
Expense			
Interest expense	101,107	122,451	126,065
Non-interest expense	78,888	65,027	80,355
Total expense	<u>179,995</u>	<u>187,478</u>	<u>206,420</u>
Profit before tax expense	547,903	928,728	746,841
Tax income(expense)	5,522	(2,823)	(854)
Profit for the year	<u>553,425</u>	<u>925,905</u>	<u>745,987</u>
Other comprehensive loss for the year, net of tax	(491)	(1,911)	(520)
Total comprehensive income for the year	<u>₩552,934</u>	<u>₩ 923,994</u>	<u>₩745,467</u>

¹ The condensed statement of comprehensive income for the year ended December 31, 2018 and 2019 are prepared in accordance with IFRS 9 and IFRS 15, and the comparatives for the year ended December 31, 2017 has not been restated.

² The condensed statement of comprehensive income for the year ended December 31, 2019 are prepared in accordance with IFRS 16, and the comparatives for the year ended December 31, 2017 and 2018 has not been restated.

Condensed Statements of Cash Flows

	2017	2018 ¹	2019 ^{1,2}
	(In millions of Korean won)		
Operating activities			
Net income	₩ 553,425	₩ 925,905	₩ 745,987
Reconciliation of net income (loss) to net cash provided by operating activities:			
Other operating activities, net	16,718	(1,243)	(274)
Net cash inflow from operating activities	<u>570,143</u>	<u>924,662</u>	<u>745,713</u>
Investing activities			
Net payments to subsidiaries	(1,413,932)	—	(100,000)
Other investing activities, net	21,376	(43,554)	(200,609)
Net cash outflow from investing activities	<u>(1,392,556)</u>	<u>(43,554)</u>	<u>(300,609)</u>
Financing activities			
Net decrease in debts	(50,263)	(164)	(298,321)
Increases in debentures	1,836,114	897,872	1,037,656
Repayments of debentures and lease liabilities	(149,669)	(688,486)	(868,723)
Issuance of hybrid securities	—	—	399,085
Cash dividends paid	(497,969)	(766,728)	(766,249)
Acquisition of treasury shares	(185,465)	(224,700)	(274,317)
Net cash inflow(outflow) from financing activities	<u>952,748</u>	<u>(782,206)</u>	<u>(770,869)</u>
Net increase(decrease) in cash held at bank subsidiaries	130,335	98,902	(325,765)
Cash and cash equivalents subsidiaries at January 1	115,062	245,397	344,299
Cash and cash equivalents subsidiaries at December 31	<u>₩ 245,397</u>	<u>₩ 344,299</u>	<u>₩ 18,534</u>

¹ The condensed statement of comprehensive income for the year ended December 31, 2018 and 2019 are prepared in accordance with IFRS 9 and IFRS 15, and the comparatives for the year ended December 31, 2017 has not been restated.

² The condensed statement of cash flow for the year ended December 31, 2019 are prepared in accordance with IFRS 16, and the comparatives for the year ended December 31, 2017 and 2018 has not been restated.

47. Event after the reporting period

47.1 The effect of Covid-19 on the financial statement

As the global spread of the Covid-19 is becoming serious, with the World Health Organization declaring a global Pandemic on March 11, the world is getting concerned of a financial instability and real recession. The situation is likely to shock the economy as a whole, leading to a slowdown in consumption and production caused by a slowdown in trade and travel, along with overall economic activities, and will likely cause financial difficulties for many companies. Thus, in 2020, we believe that the overall economy will shrink, and the economic risk will increase, resulting in a decline in the financial sector. At present, there are high levels of uncertainty currently surrounding the forward-looking information relevant to ECL. The Group is closely and continuously monitoring the situation to estimate ECL under IFRS 9 in 2020 reflecting the aggregate effect of GDP and other key economic indicators.

47.2 Business Combination

The Group has entered into a share purchase agreement in April 2020 to acquire 15,000,000 common shares of Prudential Life Insurance Company of Korea Ltd. (100% stake in outstanding shares, ₩ 2,265 billion in expected acquisition value), and the acquisition date will be decided after the regulatory authority's approval and other proceedings.

ARTICLES OF INCORPORATION OF KB FINANCIAL GROUP INC.

**CHAPTER I
GENERAL PROVISIONS**

Article 1 (Corporate Name)

The name of this company shall be “*KB Geumyung Jijoo*”, which shall be expressed in English as “KB Financial Group Inc.” (the “Company”).

Article 2 (Objective)

The objective of the Company shall be to engage in the following business activities:

1. Control over or management of companies engaged in financial businesses or other companies related closely to the operations of financial businesses;
2. Financial support (including lending of properties with economic value such as money and securities, guarantee of performance of obligations, and other direct or indirect transactions involving transactional credit risks, hereinafter the same) for subsidiaries, etc. (as defined in Article 4, Paragraph 1, Sub-paragraph 2 of the Financial Holding Company Act, including subsidiaries, subsidiaries of such subsidiaries (a “Sub-subsidiary”) and other companies controlled by a Sub-Subsidiary, hereinafter the same).;
3. Financing for investment in subsidiaries or providing financial support to subsidiaries, etc.;
4. Provision of resources necessary for the business operations of subsidiaries, etc. , including support for the development and sales of financial products of subsidiaries, etc.;
5. Functions entrusted by subsidiaries, etc. to support the business operations of subsidiaries, etc. including IT, legal and accounting functions;
6. Provision of intellectual property rights, including trademarks, patents, etc. to subsidiaries, etc.;
7. Other businesses permitted by laws and regulations; and
8. Any other businesses incidental or related to those in Items 1 through 7 of this Paragraph.

Article 3 (Location of Head Office and Establishment of Branches)

- (1) The Company shall have its head office in Seoul.
- (2) The Company may establish branches, liaison offices, representative offices or subsidiaries within or outside Korea, as it deems necessary, by the resolution of the Board of Directors.

Article 4 (Method of Public Notices)

Public notices of the Company shall be posted on the website of the Company (www.kbfg.com); provided, however, that in case the notices cannot be posted on the website of the Company due to technical difficulties or any other unavoidable circumstances, they shall be published in the Seoul Shinmun and Dong-a Ilbo, daily newspapers published in Seoul.

CHAPTER II SHARES

Article 5 (Total Number of Authorized Shares)

The total number of shares to be issued by the Company shall be one billion (1,000,000,000) shares.

Article 6 (Par Value per Share)

The par value per share to be issued by the Company shall be five thousand (5,000) Won.

Article 7 (Number of Shares Issued at the Time of Incorporation)

The total number of shares issued at the time of incorporation of the Company shall be three hundred and fifty six million, three hundred and fifty one thousand, six hundred and ninety three (356,351,693) shares of common stock.

Article 8 (Types of Shares)

- (1) The shares to be issued by the Company shall be shares in registered form. The shares shall be issued by a resolution of the Board of Directors.
- (2) The Company may issue common shares, shares with preferred dividend, non-voting shares, class shares with conversion rights (“convertible shares”), class shares with redemption rights (“redeemable shares”) and shares with combination of all or any of the above classes (the foregoing shares, except common shares, shall be referred to as “class shares”) in accordance with the terms of the Articles of Incorporation.

Article 9 (Share Certificates)

- (1) The Company shall electronically register shares and rights to be indicated on stock warrant certificates in the electronic registration account book of electronic registries, in lieu of issuing share certificates and stock warrant certificates.
- (2) < Deleted >
- (3) < Deleted >

Article 10 (Non-Voting Shares with Preferred Dividend)

- (1) The Company may issue non-voting shares with preferred dividend, and the number thereof shall not exceed one half (1/2) of the total number of issued and outstanding shares.
- (2) The dividends on non-voting shares with preferred dividend shall be no less than one percent (1%) per annum of the par value and the rate thereof shall be determined by the Board of Directors at the time of issuance, together with the type of the distributed properties and method of determination of the value of distributed properties and conditions on payment of dividends to the extent permitted under Articles 59 and 60 hereof; *provided, that* in the case of issuance of non-voting shares with preferred dividend whereby the rate of preferred dividends is adjustable, the Board of Directors shall determine the fact that the rate of preferred dividends are adjustable, the reasons for the adjustability, the base date for the adjustment and the method of adjustment at the time of issuance of such shares.
- (3) Non-voting shares with preferred dividend to be issued by the Company may be participating or non-participating, and accumulating or non- accumulating by the resolution of the Board of Directors.
- (4) Non-voting shares with preferred dividend have no voting rights. However, if a resolution not to distribute dividends on such shares is adopted, then the such shares shall be deemed to have voting rights from the

next General Meeting of Shareholders immediately following the General Meeting of Shareholders at which such resolution not to distribute dividends on such shares is adopted, to the end of the General Meeting of the Shareholders at which a resolution to distribute dividends on such shares is adopted.

- (5) If the Company increases its capital by a shares offering or a bonus issue, the new shares to be assigned to non-voting shares with preferred dividend shall be common shares in the case of a shares offering and shall be the shares of same type in the case of a bonus issue.
- (6) Whether or not to specify the duration of non-voting shares with preferred dividend shall be determined by the resolution of the Board of Directors. If there is any duration of non-voting shares with preferred dividend, such duration shall be no less than one (1) year and no more than ten (10) years from the date of issuance, and such period of duration shall be determined by the Board of Directors at the time of issuance. If there is any duration of non-voting shares with preferred dividend, such shares shall be converted into common shares upon the expiration of the duration period. However, if the holders of such shares do not receive dividends entitled to them during the duration period, then the duration period shall be extended until such holders receive in full the dividends to which they are entitled. In such a case, Article 15 shall apply *mutatis mutandis* with respect to the distribution of dividends for new shares issued upon conversion.

Article 11 (Convertible Shares)

- (1) The Company may, pursuant to a resolution of the Board of Directors, issue shares that are convertible into common shares or class shares at the request of shareholders, in an amount not exceeding 20% of the total number of issued and outstanding shares of the Company.
- (2) The issue price of the new shares issued upon conversion shall be equal to the issue price of shares prior to conversion, and the number of shares to be issued upon conversion shall be equal to the number of shares prior to conversion.
- (3) The period during which a shareholder may request for conversion shall be determined by a resolution of the Board of Directors and shall be a period that commences not earlier than one (1) year, and ends no later than ten (10) years, from the issue date.
- (4) Article 15 shall apply *mutatis mutandis* with respect to the distribution of dividends for new shares issued upon conversion.

Article 12 (Redeemable Shares)

- (1) In case of issuance of non-voting shares with preferred dividend, the Company may, pursuant to a resolution of the Board of Directors, issue such non-voting shares with preferred dividend as redeemable shares that may be redeemed with profits at the discretion of the Company or such shareholder, in an amount not exceeding one half (1/2) of the total number of issued and outstanding shares of the Company.
- (2) The redemption price shall be the “issue price + additional amount”, where the additional amount shall be determined by a resolution of the Board of Directors at the time of issuance of such redeemable shares, considering various factors such as the dividend rate, market condition and general circumstances related to the issuance of such redeemable shares.
- (3) The redemption period for the redeemable shares shall be a period falling between (x) the day immediately following the close of the Ordinary General Meeting of Shareholders for the fiscal year in which the redeemable shares were issued and (y) one month after the close of the Ordinary General Meeting of Shareholders for the fiscal year in which the 20th anniversary of the issue date falls, as determined by a resolution of the Board of Directors; *provided, however, that* in the case of redeemable shares which are required to be redeemed by the Company upon the expiration of the redemption period, to the extent that any of the conditions listed below have occurred and remain outstanding, the redemption period shall be extended until such conditions have been resolved:
 1. The holders of the redeemable shares did not receive the preferred dividends to which they are entitled;
or

2. The Company is unable to redeem the redeemable shares during the redemption period due to a lack of sufficient profits.
- (4) The Company may redeem the redeemable shares in whole at once or in part; *provided that*, in the case of partial redemption, the Company may select the shares to be redeemed by lottery, or proportionally among each holder. Fractional shares resulting from proportional redemption shall not be redeemed.
- (5) In case of redeemable shares which the Company may redeem at its discretion, if the Company wishes to redeem the redeemable shares, the Company shall provide public notice specifying its intention to redeem, the redeemable shares to be redeemed and the fact that the share certificates must be presented to the Company within a period of no less than one (1) month. The Company must separately provide notice to the shareholders registered in the Company's registry of shareholders and the registered pledgees. Upon the expiration of the period mentioned above, the Company shall mandatorily redeem the redeemable shares. In case of redeemable shares which the Company may redeem at the request of shareholders, the shareholder requesting for redemption shall provide to the Company a notice specifying its intention to redeem and the redeemable shares to be redeemed within a period of no less than one (1) month.
- (6) At the time of issuance of redeemable shares, the Company may, pursuant to a resolution of the Board of Directors and to the extent permitted by the relevant laws and regulations, issue the redeemable shares as convertible shares as provided for in Article 11 hereof.

Article 13 (Preemptive Rights)

- (1) The shareholders of the Company shall have pre-emptive rights to subscribe for new shares to be issued by the Company in proportion to their respective shareholdings.
- (2) Notwithstanding the provision of Paragraph (1) above, the Company may allocate new shares to persons other than existing shareholders of the Company by the resolution of the Board of Directors, in any of the following instances:
 1. If the Company issues new shares for its capital increase by way of a general public offering, to the extent not exceeding 50/100 of the total number of issued and outstanding shares of the Company in accordance with the provisions of the Financial Investment Services and Capital Market Act (the "FSCMA");
 2. If the Company preferentially allocates new shares to members of the Employee Stock Ownership Association in accordance with the provisions of the FSCMA;
 3. If the Company issues new shares upon the exercise of stock options in accordance with the provisions of the Commercial Code, etc.;
 4. If the Company issues new shares for the issuance of depositary receipts ("DR"), to the extent not exceeding 50/100 of the total number of issued and outstanding shares of the Company in accordance with the relevant provisions of the FSCMA, etc.;
 5. If the Company issues new shares to foreign or domestic financial institutions or institutional investors, to the extent not exceeding 50/100 of the total number of issued and outstanding shares of the Company, where such investment is deemed to be necessary for the management or operations of the Company; or
 6. If the Company issues new shares to a third party who has provided money, loan, advanced financial technology or know-how to the Company, has close, cooperative business relations with the Company, or has contributed to the management of the Company, to the extent not exceeding 50/100 of the total number of issued and outstanding shares of the Company.
- (3) If the Company allocates new shares to persons other than existing shareholders of the Company pursuant to Paragraph (2) above, it shall give the notice to the shareholders or provide the public with respect to the matters set forth in Article 416, Items 1, 2, 2-2, 3 and 4 of the Korean Commercial Code no later than two (2) weeks before the payment date of such shares.

- (4) In the case of issuance of new shares pursuant to each item under Paragraph (2) above, the type and total number of shares to be issued and the issue price, etc. shall be determined by a resolution of the Board of Directors.
- (5) In the case a shareholder waives or loses the pre-emptive right to subscribe new shares, those shares not subscribed due to such waiver or loss of the pre-emptive right shall be disposed by a resolution of the Board of Directors. If fractional shares result from the allocation of new shares, such shares shall also be disposed of by a resolution of the Board of Directors.

Article 14 (Stock Options)

- (1) The Company may grant stock options to the officers and employees (including officers and employees of related companies as prescribed under Article 9 of the Enforcement Decree of the Commercial Code, hereinafter, the same) pursuant to the provisions of the Commercial Code and other relevant laws, by a special resolution of the General Meeting of Shareholders, to the extent not exceeding 15/100 of the total number of issued and outstanding shares of the Company; provided, however, that the Company may grant stock options to the officers and employees other than directors, by a resolution of the Board of Directors, to the extent not exceeding one percent (1%) of the total number of issued and outstanding shares, in case of such the Company must obtain the approval of shareholders at the nearest forthcoming General Meeting of Shareholders.
- (2) The persons who are entitled to receive such stock options shall be officers and employees of the Company prescribed under Paragraph (1) above who have contributed, or are capable of contributing, to the management or technical innovation of the Company, except for officers or employees in any of the following cases:
 1. The Largest Shareholder of the Company (as defined in Article 542-8, Paragraph 2 (5) of the Commercial Code, hereinafter, the same) and Specially Related Persons thereof (as defined in Article 13, Paragraph 4 of the Enforcement Decree of the Commercial Code, hereinafter, the same), except for such persons who are deemed Specially Related Persons upon becoming officers (including an officer who is a non-standing officer of any affiliate company) of the Company;
 2. Major Shareholders (as defined in Article 542-8, Paragraph 2 (6) of the Commercial Code, hereinafter, the same) of the Company, and Specially Related Persons thereof, except for such persons who are deemed Specially Related Persons upon becoming officers (including an officer who is a non-standing officer of any affiliate company) of the Company; and
 3. Persons who become Major Shareholders of the Company through exercise of their stock options.
- (3) The shares to be issued upon the exercise of stock options shall be common shares or class shares.
- (4) The total number of shares to be given to one (1) officer or employee pursuant to the stock option shall not exceed 1/100 of the total number of shares issued and outstanding.
- (5) The exercise price per share for the stock option shall be determined in accordance with the relevant laws, such as the Commercial Code, etc. Adjustment of exercise price shall be determined likewise.
- (6) Stock options may be exercised during the period as decided by a resolution of the General Meeting of Shareholders or Board of Directors, at the time that the stock options are granted. Such exercise period shall fall between the date commencing from the 2nd anniversary of the date that a resolution was made to grant such stock options (as provided in Paragraph (1) above) until a date not later than the 7th anniversary of such resolution date.
- (7) A stock option is exercisable by a person who has served the Company for two (2) years or more from the date specified in Paragraph (1) above at which a resolution to grant such stock option was adopted. If the grantee's continuous service terminates by reason of the grantee's death, attainment of mandatory retirement age or for reasons other than by the fault of the grantee within two (2) years from the said date of resolution, the option may be exercisable within the exercise period.

- (8) In the case of granting the stock options, the Company may condition the exercise of the stock options upon achieving a detailed set of performance goals, and may cancel all or a portion of the stock options or postpone the exercise of stock options if such condition is not satisfied.
- (9) In the following instances, the Company may, by a resolution of the Board of Directors, cancel the stock options:
 1. When the relevant officer or employee voluntarily resigns or retires from his or her position at the Company after receiving the stock option;
 2. When the relevant officer or employee inflicts material damage or losses on the Company due to his or her willful misconduct or negligence;
 3. When the Company cannot respond to the exercise of stock options due to its bankruptcy, dissolution, etc.; or
 4. When there occurs any other event for cancellation of the stock option pursuant to the stock option agreement.

Article 15 (Issuance Date of New Shares for the Purpose of Dividends)

In case the Company issues new shares through a share offering, bonus issue, stock options and/or stock dividend, the new shares shall be deemed to have been issued at the end of the fiscal year immediately prior to the fiscal year during which the new shares are issued for the purpose of distribution of dividends for such new shares.

Article 16 (Transfer Agent)

- (1) The Company shall designate a transfer agent for shares.
- (2) The transfer agent, its place of business and the scope of its agency business shall be determined by a resolution of the Board of Directors.
- (3) The shareholders registry or duplicates thereof shall be kept at the business place of the transfer agent and electronic registration of shares, management of the shareholders registry and other related activities shall be conducted by the transfer agent.
- (4) The procedure provided for in Paragraph (3) above shall be regulated by the Regulation on Securities [*jeung kweon in Korean*] Transfer Agency Business of Transfer Agent, etc.

Article 17 < Deleted >

Article 18 (Close of Shareholders' Registry and Record Date)

- (1) The Company shall suspend entries of alteration of the shareholders' registry from the 1st to the 31st of January of each year.
- (2) The shareholders registered in the shareholders' registry as of December 31 of each fiscal year shall be entitled to exercise the rights as shareholders at the Ordinary General Meeting of Shareholders convened for such fiscal year.
- (3) The Company may, if necessary for convening of an Extraordinary General Meeting of Shareholders or any other necessary cases, suspend any entry into the shareholders' registry with respect to shareholders' rights for a period not exceeding three (3) months as determined by a resolution of the Board of Directors, or cause the shareholders whose names appear in the shareholders' registry on a record date set by a resolution of the Board of Directors to exercise their rights as shareholders. If the Board of Directors deems it necessary, the Company may suspend any entry into the shareholders' registry and set the record date at the same time. The Company shall give at least two (2) weeks prior notice to the public.

- (4) Notwithstanding the provision of the last sentence of Paragraph (3) above, if prescribed otherwise by the Financial Holding Companies Act and other relevant laws and regulations, such laws may prevail.

CHAPTER III BONDS

Article 19 (Issuance of Bonds)

- (1) The Company may, pursuant to a resolution of the Board of Directors, issue bonds.
- (2) The Board of Directors may delegate the Representative Director to issue bonds in such amount and type as determined by the Board of Directors no later than one (1) year from the date of delegation.
- (3) The Company shall electronically register bond (which shall include the bonds and contingent convertible bonds set forth from Articles 19-2 to 21) and rights to be indicated on warrant certificates in the electronic registration account book of electronic registries, in lieu of issuing bond certificates and warrant certificates.

Article 19-2 (Issuance of Convertible Bonds)

- (1) The Company may issue to persons other than existing shareholders of the Company convertible bonds, by the resolution of the Board of Directors, to the extent that the total face value of the bonds shall not exceed two trillion five hundred billion (2,500,000,000,000) Won, in the following cases:
 1. If the Company issues convertible bonds through a general public offering;
 2. If the Company issues convertible bonds to domestic or foreign financial institutions or institutional investors in order to raise the fund to meet urgent need; or
 3. If the Company issues convertible bonds to a third party who has provided money, loan, advanced financial technology or know-how to the Company, has close, cooperative business relations with the Company, or has contributed to the management of the Company.
- (2) The Board of Directors may determine that the convertible bonds referred to in Paragraph (1) may be issued on the condition that conversion rights will be attached to only a portion of the convertible bonds.
- (3) The shares to be issued upon conversion shall be common shares or class shares. The conversion price, which shall be equal to or more than the face value of the shares, shall be determined by the Board of Directors at the time of issuance of convertible bonds.
- (4) The conversion period shall commence on the date following three (3) months from the issue date of the convertible bonds and end on the date immediately preceding the redemption date thereof. However, the conversion period may be adjusted within the above period by a resolution of the Board of Directors.
- (5) For the purpose of any distribution of dividends on the shares issued upon conversion and any payment of accrued interest on the convertible bonds, Article 15 hereof shall apply *mutatis mutandis*.

Article 20 (Bonds with Warrants)

- (1) The Company may issue to persons other than existing shareholders of the Company bonds with warrants, by the resolution of the Board of Directors, to the extent that the total face value of the bonds shall not exceed two trillion five hundred billion (2,500,000,000,000) Won, in the following cases:
 1. If the Company issues bonds with warrants through a general public offering;
 2. If the Company issues bonds with warrants to domestic or foreign Financial institutions or institutional investors in order to raise the fund to meet urgent need; or

3. If the Company issues bonds with warrants to a third party who has provided money, loan, advanced financial technology or know-how to the Company, has close, cooperative business relations with the Company, or has contributed to the management of the Company.
- (2) The amount of new shares which can be subscribed for by the holders of the bonds with warrants shall be determined by the Board of Directors to the extent that the maximum amount of such new shares shall not exceed the face value of the bonds with warrants.
- (3) The shares to be issued upon exercise of warrants shall be common shares or class shares. The issue price, which shall be equal to or more than the face value of the shares, shall be determined by the Board of Directors at the time of issuance of bonds with warrants.
- (4) The warrant exercise period shall commence on the date following three (3) months from the issue date of the relevant bonds and end on the date immediately preceding the redemption date thereof. However, the warrant period may be adjusted within the above period by resolution of the Board of Directors.
- (5) For the purpose of any distribution of dividends on the shares issued upon exercise of warrants, Article 15 hereof shall apply *mutatis mutandis*.

Article 20-2 (Issuance of Write-down Contingent Convertible Bonds)

- (1) The Company may issue bonds by a resolution of the Board of Directors, which are a different type of bonds from those under Article 469, Paragraph (2), Article 513 and Article 516-2 of the Korean Commercial Code and are exempted from the obligation to repay the bonds and pay interest thereon if an event predetermined in accordance with objective and reasonable standards at the time of the issuance of the bonds occurs (the “Write-down Contingent Convertible Bonds”).
- (2) The Company may issue the Write-down Contingent Convertible Bonds in the preceding Paragraph to the extent the aggregate par value thereof does not exceed twenty trillion (20,000,000,000,000) Won by a resolution of the Board of Directors.
- (3) The Company may issue the Write-down Contingent Convertible Bonds on the condition that if either one of the following conditions are satisfied, the obligations to repay the Write-down Contingent Convertible Bonds issued by the Company and to pay interest thereon shall be reduced or exempted (the “Debt Restructuring”):
 1. The Company received a measure of managerial improvement order from the Financial Services Commission pursuant to the Act on the Structural Improvement of the Financial Industry; or
 2. The Company is designated as a non-performing financial institution pursuant to the Act on the Structural Improvement of the Financial Industry.
- (4) The Board of Directors of the Company may determine such terms and conditions to be amended following the Debt Restructuring, to the extent permitted under the relevant laws and regulations, at the time of the issuance of the Write-down Contingent Convertible Bonds.

Article 21 (Issuance of Participating Bonds)

- (1) The Company may issue participating bonds to persons other than existing shareholders by the resolution of Board of Directors; to the extent that the total face value of the bonds shall not exceed one trillion (1,000,000,000,000) Won, in the following cases:
 1. If the Company issues participating bonds through a general public offering;
 2. If the Company issues participating bonds to domestic or foreign financial institutions or institutional investors in order to raise the fund to meet urgent need; or

3. If the Company issues participating bonds to a third party who has provided money, loan, advanced financial technology or know-how to the Company, has close, cooperative business relations with the Company, or has contributed to the management of the Company.
- (2) The matters about participation in any distribution of dividends on bonds issued pursuant to Article (1) above shall be determined by the resolution of the Board of Directors on the basis of the distribution of dividends on common shares at the time of issuance.

Article 22 (Applicable Provisions for the Issuance of Bonds)

The provisions of Articles 16 hereof shall be applicable to the issuance of bonds.

**CHAPTER IV
GENERAL MEETINGS OF SHAREHOLDERS**

Article 23 (Convening of General Meetings of Shareholders)

- (1) General Meetings of Shareholders of the Company shall be of two types: (i) Ordinary and (ii) Extraordinary.
- (2) The Ordinary General Meeting of Shareholders shall be held within three (3) months after the end of each fiscal year and the Extraordinary General Meeting of Shareholders may be convened whenever deemed necessary.

Article 24 (Authority to Convene)

- (1) The Representative Director shall convene the General Meeting of Shareholders in accordance with a resolution by the Board of Directors, unless otherwise prescribed by other laws and ordinances.
- (2) If the Representative Director is unable to perform his/her duties, Article 41, Paragraph (2) shall apply *mutatis mutandis*.

Article 25 (Personal or Public Notices for Convening)

- (1) Written or electronic notice of the General Meeting of Shareholders of the Company shall state the date, time, place of the Meeting, the purposes for which the Meeting has been called. The written or (with the consent of each shareholder) electronic notice shall be sent to all shareholders at least two (2) weeks prior to the date set for such Meeting.
- (2) The written or electronic notice of a General Meeting of Shareholders under Paragraph (1) above to be given to shareholders holding one-hundredth (1/100) or less of the total issued and outstanding voting shares may be substituted by either giving public notice of the convening of the General Meeting of Shareholders in the Seoul Shinmun and the Dong-a Ilbo, which are published in the city of Seoul and at least two (2) notices are made in the said publications two (2) weeks prior to the date set for such Meeting or by giving such public notice through the electronic disclosure system operated by the Financial Supervisory Commission or the Korea Exchange; provided that, if the Seoul Shinmun and the Dong-a Ilbo are not available due to circumstances beyond the Company's control, the public notices may be given in the Chosun Ilbo and the Joongang Ilbo, in such order.

Article 26 (Place of Meeting)

The General Meeting of Shareholders shall be held in the city where the head office is located or any other places adjacent thereto as required.

Article 27 (Chairman of the General Meeting of Shareholders)

The person who has the authority to convene the General Meeting of Shareholders under Article 24 above shall be the Chairman of the General Meeting of Shareholders.

Article 28 (Chairman's Authority to Maintain Order)

- (1) The Chairman of the General Meeting of Shareholders may order persons who purposely speak or act in a manner that disrupts or inhibits the deliberations of the General Meeting of Shareholders or who otherwise disturb the public order of the General Meeting of Shareholders to desist, retract his/her remarks, or to leave the place of meeting.
- (2) The Chairman of the General Meeting of Shareholders may restrict the length and frequency of the speech of shareholders if it is necessary for the orderly conduct of the General Meeting of Shareholders.

Article 29 (Voting Rights)

- (1) Each shareholder shall have one (1) vote for each share he/she owns.
- (2) If the Company, any of its parent company and subsidiary or subsidiaries hold shares exceeding one tenth (1/10) of the total number of issued and outstanding shares of another company, the shares of the Company held by such other company shall not have voting rights.

Article 30 (Split Voting)

- (1) If any shareholder who holds two (2) or more votes wishes to split his/her votes, he/she shall give written or electronic notice to the Company of such intent and the reasons therefor no later than three (3) days before the date set for the General Meeting of Shareholders.
- (2) The Company may refuse to allow the shareholder to split his/her votes unless the shareholder acquired the shares in trust or otherwise holds the shares for and on behalf of some other person.

Article 31 (Voting by Proxy)

- (1) A shareholder may exercise his/her voting rights by proxy.
- (2) In the case of Paragraph (1) above, the proxy holder shall file with the Company the documents (power of attorney) evidencing the authority to act as a proxy before the General Meeting of Shareholders.

Article 32 (Method of Resolution of the General Meeting of Shareholders)

Except as otherwise provided in the applicable laws and regulations, all resolutions of the General Meeting of Shareholders shall be adopted by the affirmative vote of a majority of the shareholders present; provided that such votes shall, in any event, represent not less than 1/4 of the total number of issued and outstanding shares.

Article 33 (Exercise of Voting Rights in Writing)

- (1) If the method of written resolutions at the General Meeting of Shareholders is adopted by the resolution of the Board of Directors, at which the convening of the General Meeting of Shareholders is determined, the shareholders may exercise their voting rights in writing without attending the meeting.
- (2) In the case of Paragraph (1), the Company shall send the documents and references necessary for the exercise of the voting rights, together with the convening notice of the General Meeting of Shareholders.
- (3) If a shareholder intends to exercise his/her voting rights in writing, the shareholder shall fill in and submit to the Company the documents referred to in Paragraph (2) one day before the date set for the General Meeting of Shareholders.

Article 34 (Minutes of the General Meetings of Shareholders)

The substance of the course of the proceedings of the General Meeting of Shareholders and the results thereof shall be recorded in the minutes and shall be preserved at the head office and branches of the Company, after being affixed with the names and seal impressions or signatures of the Chairman and the Directors present.

**CHAPTER V
DIRECTORS AND BOARD OF DIRECTORS**

Article 35 (The Number of Directors)

- (1) The Company shall have not more than thirty (30) Directors.
- (2) The number of Non-executive Directors shall be more than one half (1/2) of the total number of Directors and five (5) or more.

Article 36 (Election of Director)

- (1) The Directors shall be elected at the General Meeting of Shareholders.
- (2) Non-executive Directors shall be recommended by the Non-executive Directors Candidate Nomination Committee pursuant to Article 48 and elected at the General Meeting of Shareholders.

Article 37 (Qualifications of Non-executive Directors)

- (1) Any person falling within the scope of any of the following cannot become a non-executive director of this Company and such person shall, if found to fall within the scope of any of the following after becoming a non-executive director, lose his/her office as non-executive director:
 1. Any person to whom any sub-paragraph of Article 6, Paragraph 1 of the Act on Corporate Governance of Financial Companies applies.; or
 2. Any person serving as a non-executive director of any other company that is not a Subsidiary, etc. of the Company.
- (2) The Company shall appoint a non-executive director who has expertise and knowledge by considering the following; provided, however, that this Paragraph is not applicable to a person who is appointed as non-executive director after being nominated as a candidate therefor pursuant to Article 542-8, Paragraph (5) of the Korean Commercial Code or Article 17, Paragraph 4 of the Act on Corporate Governance of Financial Companies.
 1. Whether he or she is sufficiently well-informed or experienced in a related field, including finance, economics, management, accounting and law, as required for his or her performance of duty as a non-executive director;
 2. Whether he or she may fairly perform his or her duty for the benefit of the entire shareholders and financial consumers without being bound by certain interests;
 3. Whether he or she has reasonable sense of morals and responsibility to perform his or her duty as a non-executive director; or
 4. Whether he or she is able to dedicate sufficient time and effort to fully perform his or her duty as a non-executive director of a financial company.

Article 38 (Term of Director)

- (1) A Director shall be appointed to a term of office of three (3) years, and may be re-appointed; provided, that such term may be otherwise determined at the General Meeting of Shareholders to the extent it does not exceed three (3) years.

- (2) If the term of office as set forth in Paragraphs (1) and (4) expires after the end of a fiscal year but before the Ordinary General Meeting of Shareholders convened in respect of such fiscal year, the term of office shall be extended up to the close of such General Meeting of Shareholders.
- (3) Unless otherwise prescribed by General Meeting of Shareholders, the term of office of the Director shall commence from the date of appointment.
- (4) Notwithstanding Paragraph (1), the term of office of a non-executive director shall be two (2) years and shall be one (1) year if the non-executive director is being re-appointed; provided, however, that the length of such term may be otherwise determined at the General Meeting of Shareholders so long as such term does not exceed two (2) years (or one (1) year in the case of re-appointment).
- (5) A non-executive director cannot serve a term of office for more than five (5) years on a consecutive basis except in the case where the term of office is extended pursuant to Paragraph (2) above.
- (6) If a non-executive director is re-appointed within two (2) years from the expiry of the term of office, the non-executive director shall be deemed to serve the position on a consecutive basis.
- (7) The term of office set forth in above Paragraph (5) shall be calculated by taking into consideration the term of office served as a non-executive director for Subsidiaries, etc. of this Company (but only with respect to such non-executive director of a Subsidiary, etc. who is appointed as a non-executive director of this Company within two (2) years from the expiry of the term of office), except for the term of office served as a non-executive director for a company that is not an affiliate of this Company. However, the terms of office of non-executive directors of companies that became subsidiaries, etc. of the Company at the time the Company was approved to become a financial holding company pursuant to Article 3 of the Financial Holding Company Act shall be counted for the calculation of the terms of office hereunder.

Article 39 (By-election of Directors)

- (1) In the event of any interim vacancy in the office of the Director, a substitute Director shall be elected at the General Meeting of Shareholders; *provided, however, that* the foregoing shall not apply if the number of remaining Directors satisfies the requirement Article 35 hereof and such vacancy does not cause any difficulties in business operation of the Company.
- (2) If the number of Non-executive Directors does not satisfy the requirement referred to in Article 35 due to the death or resignation of Non-executive Directors, etc., Non-executive Directors shall be elected to fill the vacancy at the first General Meeting of Shareholders to be held after such occurrence so as to cause the number of Non-executive Directors to be such prescribed number.

Article 40 (Appointment of Representative Director, et al.)

The Company may appoint several Representative Directors, including one appointed as the Chairman, by the resolution of the Board of Directors.

Article 41 (Duties of Directors)

- (1) The Representative Director shall represent the Company and shall perform the matters resolved by the Board of Directors and oversee the business of the Company as determined by the Board of Directors.
- (2) Directors who are not Non-executive Directors shall assist the Representative Director, and divide and perform their respective duties as may be determined by the Representative Director. In the case of an absence of, or an accident caused to, the Representative Director, the Directors shall take his/her place as the Representative Director in accordance with their order of priority as determined by the Board of Directors.

Article 42 (Director's Obligation)

- (1) Directors shall attend the meeting of the Board of Directors and shall perform their respective duties faithfully. During his/her service period and after his/her retirement, Directors shall not disclose trade secrets of the Company obtained in the course of his/her performance of duties.
- (2) If any Director finds any facts which may cause substantial losses to the Company, such Director shall promptly report to the Audit Committee thereof.

Article 43 (Composition and Convening of the Meeting of Board of Directors)

- (1) The Board of Directors shall consist of Directors, and shall resolve important matters regarding the business affairs of the Company.
- (2) The Chairman of the Board of Directors shall be elected from among the non-executive directors in accordance with the resolution of the Board of Directors on an annual basis.
- (3) The Meeting of the Board of Directors shall be convened at least once per fiscal quarter.
- (4) The Meeting of the Board of Directors shall be convened by giving notice to each Director at least three (3) days prior to the scheduled date of such Meeting. In the absence of or if accidents are caused to the Chairman of the Board of Directors, the Director(s) as determined by the Board of Directors shall take his/her place as the Representative Director. However, the said notice period may be shortened in urgent cases and the said procedures may be omitted with the consent thereon of all Directors.
- (5) The Company shall organize the Board of Directors so that persons from various fields with appropriate experience and knowledge required for the performance of duties as directors of a financial company may be included therein, and shall put its effort so that the Board of Directors may not be comprised of directors with certain common background in their expertise nor be weighted towards certain occupations or some groups by representing the interest thereof, etc.
- (6) Other matters regarding the operation of the Board of Directors shall be determined in accordance with the resolution of the Board of Directors.

Article 44 (Review/Resolution of the Board of Directors)

The Board of Directors shall review and resolve each of the following matters:

1. Matters concerning business objectives and performance evaluations;
2. Matters concerning amendments to the Articles of Incorporation;
3. Matters concerning budgets and settlement of accounts;
4. Matters concerning major organizational changes such as dissolutions, business transfers and mergers;
5. Matters concerning establishment, amendment or repeal of internal control standards and risk management standards as prescribed by the relevant laws and regulations;
6. Matters concerning establishment of corporate governance policies such as management succession of the chief executive officer;
7. Matters concerning supervision of conflicts of interests between principal shareholders, officers, etc. and the Company;
8. Matters concerning the general shareholders' meeting, general business, management of subsidiaries, material contracts, organization and officers, fund-raising and capital, and other matters as separately determined by the bylaws of the Board of Directors.

Article 45 (Method of Resolution)

- (1) The quorum for the Board of Directors shall be the presence of at least more than one half (1/2) of the Directors, and all resolutions of the Board of Directors shall require the affirmative votes of a majority of the Directors present at the meeting of the Board of Directors; provided that amendment of the Articles of Incorporation, appointment of the Representative Director and other matters requiring the resolution of General Meeting of Shareholders shall be adopted by the affirmative vote of a majority of the Directors in office; provided, further, that any matter falling under Articles 397-2 (Prohibition on Usurpation of Corporate Opportunity) and 398 (Prohibition on Transaction between Director and Company) of the Korean Commercial Code shall be adopted by the affirmative vote of equal to or more than two-thirds(2/3) of the Directors in office.
- (2) The Board meetings may be held by means of an audio conference that can simultaneously transmit and receive sound, whereby all or part of the Directors may participate in the meeting and vote on matters at the same time. In such case, a Director participating in the meeting by such arrangement shall be considered present at the meeting.
- (3) Any Director who has an interest in the matters to be resolved at the Meeting of the Board of Directors shall not be entitled to vote at such Meeting.

Article 46 (Minutes of the Meeting of Board of Directors)

- (1) The proceedings of a Board meeting shall be recorded in the minutes.
- (2) The agenda, proceedings, resolutions, dissenting director (if any) and his/her reasons for dissenting of a Board meeting shall be recorded in the minutes on which the names and seals of the Directors present at the meeting shall be affixed or signed by them.

Article 47 (Power and Obligation of the Board of Directors to the Wholly-Owned Subsidiary, etc.)

- (1) The Board of Directors shall retain the power to give advice, corrective recommendation and request for submission of materials with respect to the matters of management of the subsidiary of which the total issued and outstanding shares are owned by the Company (“Wholly-Owned Subsidiary”), and the Sub-subsidiary company of which the total issued and outstanding shares are owned by the Wholly-Owned Subsidiary (“Wholly-Owned Sub-subsidiary”, and “Wholly-Owned Subsidiary, etc.” together with Wholly-Owned Subsidiary).
- (2) When exercising the power under Paragraph (1) above, the Board of Directors shall be liable for the followings:
 1. The Board of Directors shall not hinder the soundness of management, consumer’s right and the sound order of financial transactions;
 2. During his/her service period and after his/her retirement, Directors shall not disclose trade secrets of the Wholly-Owned Subsidiary, etc. obtained in the course of his/her performance of duties; and
 3. The Board of Directors shall not violate the relevant laws and regulations.
- (3) The Board of Directors shall set up the standards of internal compliance in accordance with the relevant laws and regulations such as the Act on Corporate Governance of Financial Companies in order to supervise direct and indirect subsidiaries of the Company, and may appoint the compliance officer to inspect compliance of such standards.

Article 48 (Committees)

- (1) The Company may establish various committees including following committees within the Board of Directors as determined by the resolution of the Board of Directors for the purposes of smooth operation of the Board of Directors and effective management of the Company:
 1. Risk Management Committee;
 2. Evaluation and Compensation Committee;
 3. Non-executive Director Nominating Committee;
 4. Audit Committee Member Nominating Committee;
 5. CEO Nominating Committee;
 6. Audit Committee;
 7. Subsidiaries' CEO Director Nominating Committee; and
 8. ESG Committee.
- (2) Matters regarding the composition, power, operation, etc. of each committee shall be determined by the resolution of the Board of Directors.
- (3) Article 43, Paragraph (4), Article 44 and Article 45 shall apply *mutatis mutandis* with respect to the committees.

Article 49 (Remuneration for Directors, etc.)

The remuneration and severance pay for the Directors shall be determined by a resolution of the General Meeting of Shareholders.

Article 50 (Group Management Control Committee, Etc.)

- (1) The Company shall establish the Group Management Control Committee in order to effectuate strategic managerial decision-making for the Company, its Subsidiaries, etc., and the matters regarding the operation of the Group Management Control Committee shall be determined by the Board of Directors.
- (2) The Company may retain consultants, honorary directors, advisors, etc. by a resolution of the Board of Directors.

**CHAPTER VI
AUDIT COMMITTEE**

Article 51 (Constitution of Audit Committee)

- (1) The Company shall establish an Audit Committee, as prescribed by the Act on Corporate Governance of Financial Companies and other applicable laws and regulations.
- (2) The Audit Committee of the Company under the Act on Corporate Governance of Financial Companies shall consist of three (3) or more Directors, who are recommended by the Audit Committee Member Nominating Committee, which is composed of all Non-executive Directors.
- (3) Two-thirds (2/3) of the members of the Audit Committee shall be elected from the Non-executive Directors. The members of the Audit Committee who are not Non-executive Directors shall satisfy the requirements of the Act on Corporate Governance of Financial Companies.

- (4) The Members of the Audit Committee shall have any of the following qualifications and not less than one of the members of the Audit Committee shall be a professional in financial affairs pursuant to the relevant laws:
 1. A licensed person such as lawyer, CPA with at least 5-year work experience in the licensed business;
 2. A person who has been a researcher in the institutions or an assistant professor in colleges, having a master's degree in law or economics-business with at least 5-year work experience;
 3. A person who has been served as a professional in accounting, internal compliance, audit, Information Technology (IT) and so on with at least 10-year work experience in finance related organizations;
 4. A person who has served as an executive official for at least 5-year, or as an employee who has a specific and practical knowledge in economics, business, law, accounts and the like for at least 10-year in Stock listed corporations; or
 5. A person who is recognized as being equivalently qualified as those listed in items 1 through 4 by the Board of Directors or General Meeting of the Shareholders.
- (5) The Chairman of the Audit Committee shall be elected among the members who are Non-executive Directors by a resolution of the Audit Committee.
- (6) If the number of members of the Audit Committee does not satisfy the requirement referred to Paragraph (3) due to the death or resignation of members or any other reason, the members shall be elected to fill the vacancy at the first General Meeting of Shareholders to be held after such occurrence so as to cause the number of members to be such prescribed number.

Article 52 (Duties of Audit Committee)

- (1) The Audit Committee shall audit Directors' performance of their duties and may request business reports from any Director, or investigate the business and status of property of the Company.
- (2) The Audit Committee may, if necessary, request to call the Board meeting by submitting, in writing, a purpose and reason for such meeting to a person authorized to convene the Meeting of the Board of Directors.
- (3) The Audit Committee may convene the Meeting of the Board of Directors in the event a person authorized to convene the Meeting of the Board of Directors fails to convene such meeting without delay according to Paragraph (2) above.
- (4) The Audit Committee shall inspect the matters listed in the agenda of, and documents submitted to, a General Meeting of Shareholders to investigate whether there is any event violating the laws or these Articles of Incorporation and the Chairman of the Audit Committee shall express his/her opinion to the General Meeting of Shareholders.
- (5) The Audit Committee may request the Board of Directors to convene the Extraordinary General Meeting of Shareholders by submitting documents stating the agenda and reasons for convening such meeting.
- (6) The Audit Committee may request business reports from any subsidiary of the Company when it is necessary to perform its duties. In this case, if such subsidiary does not report to the Audit Committee immediately or the Audit Committee needs to verify the contents of the reports, it may investigate the status of business and the financial condition of the subsidiary.
- (7) The Audit Committee shall retain the power to audit the status of the operation and property and to request the submission of materials in relation to the managerial matters of the Wholly-Owned Subsidiary, etc. and with respect to the exercise of such power Article 46 Paragraph (2) shall apply *mutatis mutandis* to the liability of the Audit Committee.
- (8) The Audit Committee shall select an external auditor.

- (9) In addition to the matters referred to in Paragraphs (1) through (8), the Audit Committee shall carry out the matters delegated by the Board of Directors.
- (10) The Board of Directors shall not overrule the decisions of the Audit Committee.
- (11) The Audit Committee may request professional support at the Company's expenses.

Article 53 (Audit Committee's Record)

The Audit Committee shall record the substance and results of its audit in the Audit Committee's record, on which the name and seal of the Audit Committee Member who has performed such audit shall be affixed or shall be signed by such Audit Committee Member.

**CHAPTER VII
ACCOUNTING**

Article 54 (Fiscal Year)

The fiscal year of the Company shall begin on January 1 and end on December 31 of each year.

Article 55 (Preparation and Maintenance of Financial Statements and Business Report, etc.)

- (1) The Representative Director of the Company shall prepare the following documents to be submitted to the Ordinary General Meeting of Shareholders, together with supplementary data for items 1 through 3 and business reports, and have such documents audited by the Audit Committee no later than six (6) weeks before the date of the Ordinary General Meeting of Shareholders:
 - 1. balance sheet (statements of financial position referred to in Article 2 of the Act on the External Audit of Stock Companies, Etc.);
 - 2. statements of profit and loss; and
 - 3. other documents which record the Company's financial condition and business performance as set forth by the Enforcement Decree of the Korean Commercial Code; and
 - 4. consolidated financial statements for items 1 through 3 as set forth by the Enforcement Decree of the Korean Commercial Code.
- (2) The Audit Committee shall submit an audit report to the Representative Director no later than one (1) week before the date of the Ordinary General Meeting of Shareholders.
- (3) The Representative Director shall keep on file copies of the documents described in Paragraph (1) above, together with the business report and Audit Committee's audit report thereon, at the head office of the Company for five (5) years, and certified copies of all of such documents at the branches of the Company for three (3) years, beginning from one (1) week before the date of the Ordinary General Meeting of Shareholders.
- (4) Upon obtaining approval for the documents mentioned in Paragraph (1) above from the General Meeting of Shareholders, within three (3) months from the end of the relevant fiscal year, the Representative Director shall make a public notice of the balance sheet (statements of financial position referred to in Article 2 of the Act on the External Audit of Stock Companies, Etc.), income statement, consolidated financial statements pursuant to the Act on External Audit of Stock Companies, Etc. which are designated by the FSC and the opinion of an external auditor.

Article 56 (Appointment of External Auditor)

The Company shall appoint a person selected by the Audit Committee as the external auditor, and shall report such appointment to the Ordinary General Meeting of Shareholders to be held after he/she is appointed or to the

shareholders as of the latest closing date of the shareholders' registry in writing or in electronic form, or shall give a public notice regarding such appointment via the Company's website and make such notice available until the end of the relevant fiscal year with respect to which the audit is conducted.

Article 57 (Disposal of Profits)

The Company shall dispose of the unappropriated retained earnings as of the end of each fiscal year as follows:

1. earned surplus reserves;
2. other statutory reserves;
3. dividends;
4. temporary reserves; and
5. other appropriations of earned surplus.

Article 58 (Retirement of Shares)

- (1) The Company may retire the shares within the scope of profits attributable to the shareholders by the resolution of the Board of Directors.
- (2) In order to retire the shares pursuant to Paragraph (1), the Board of Directors shall adopt the following resolutions:
 1. Types and the total number of shares to be retired;
 2. The total amount of shares to be acquired for retirement; and
 3. Acquisition period or retirement date (the acquisition period or retirement date shall be before the Ordinary General Meeting of Shareholders to be held first after the resolution of such retirement).
- (3) In case of acquisition of shares for the purpose of retirement pursuant to Paragraph (1), the following criteria shall be followed:
 1. In the case of acquisition of shares for the purpose of retirement, such acquisition shall be made in accordance with the method and criteria as prescribed in the relevant laws, such as the FSCMA, etc.
 2. Total price of the shares to be acquired for the purpose of retirement shall not be more than the amount as prescribed in the relevant laws, such as the FSCMA, etc. within the scope available for dividend as at the end of such fiscal year pursuant to Article 462, Paragraph (1) of the Commercial Code.
- (4) When the shares are retired pursuant to Paragraph (1), the matters referred to in each Subparagraph of Paragraph (2) and the results of retirement shall be reported to the Ordinary General Meeting of Shareholders to be held first after the resolution of such retirement.

Article 59 (Dividends)

- (1) Dividends may be distributed in cash or stock.
- (2) In case the dividends are to be distributed in stock and the Company has class shares, the stock dividend distribution may be made in shares of different types by a resolution of the General Meeting of Shareholders.
- (3) Dividends of Paragraph (1) above shall be paid to the shareholders registered in the Company's registry of shareholders or the registered pledgees as of the last day of each fiscal year.

Article 60 (Quarterly Dividends)

- (1) The Company may distribute cash dividends to the shareholders as of the end of March, June or September by resolution of the Board of Directors.

- (2) Quarterly Dividends provided under Paragraph (1) shall be decided by a resolution of the Board of Directors, provided that the specific method and limit, etc. of quarterly dividends shall satisfy the relevant laws and regulations including the FSCMA, etc.
- (3) In case the Company issues new shares through a shares offering, bonus issue, stock dividend, conversion of convertible bonds, exercise of warrant of bond with warrants or stock options, the new shares shall be deemed to have been issued at the end of the fiscal year immediately prior to the fiscal year during which the new shares are issued with respect to distribution of dividends for such new shares.
- (4) In case of distributing quarterly dividends, the same dividend rate as that of common shares of the Company shall be applied to non-voting shares with preferred dividend under Article 10 unless otherwise determined at the time of issuance.

Article 61 (Expiration of Right to Payment of Dividends)

- (1) The right to demand payment of dividends shall extinguish by prescription if not exercised within five (5) years.
- (2) The dividends, for which the right has been extinguished under Paragraph (1) above, shall be kept by the Company.

Article 62 (Supplementary Provision)

Matters not specified in these Articles of Incorporation shall be determined by the resolution of the Board of Directors or the General Meeting of Shareholders, or in accordance with the Commercial Code or other laws.

ADDENDUM(2008.09.29)

Article 1 (Effective Date)

These Articles of Incorporation shall become effective from the date of registration of incorporation.

Article 2 (Initial Fiscal Year after Incorporation)

Notwithstanding the provision of Article 53, the initial fiscal year of the Company after incorporation shall be from the date of incorporation to December 31, 2008.

Article 3 (Initial Transfer Agent after Incorporation)

The initial transfer agent of the Company after incorporation shall be Korea Securities Depository.

Article 4 (Appointment of Initial Director, Representative Director, et al. after Incorporation)

Notwithstanding the provisions of Articles 36 and 39, the initial Director and the initial Representative Director after incorporation shall be appointed at the General Meetings of Shareholders of the Stock Transfer Companies, at which the resolution to approve the stock transfer is adopted.

Article 5 (Term of Office of Initial Director after Incorporation)

Notwithstanding the provisions of Articles 38, the term of office of the initial Director after incorporation shall be determined, to the extent it does not exceed three (3) years, at the General Meetings of Shareholders of the Stock Transfer Companies at which the stock transfer plan is approved.

Article 6 (Appointment of Initial Non-executive Director after Incorporation)

Notwithstanding the provision of Article 36, Paragraph (2), the initial Non-executive Director of the Company after incorporation shall be appointed at the General Meetings of Shareholders of the Stock Transfer Companies, at which the resolution to approve the stock transfer is adopted, without recommendation of the Non-executive Director Candidate Nomination Committee.

Article 7 (Appointment of Initial Members of Audit Committee after Incorporation)

Notwithstanding the provision of Article 50, Paragraph (2), the initial members of Audit Committee shall be appointed at the General Meetings of Shareholders of the Stock Transfer Companies, at which the resolution to approve the stock transfer is adopted, without recommendation of the Audit Committee Member Nominating Committee.

Article 8 (Remuneration of Directors in Initial Fiscal Year after Incorporation)

Notwithstanding the provision of Article 48, the remuneration of Directors in initial fiscal year after incorporation shall be determined at the first meeting of the Board of Directors after incorporation, to the extent not exceeding two (2) billion Won.

Article 9 (Stock Transfer Companies)

In order to incorporate the Company, the following Stock Transfer Companies hereby prepare these Articles of Incorporation and affix their respective names and seals hereon on August 25, 2008.

Kookmin Bank
9-1, 2ga, Namdaemun-ro, Jung-gu, Seoul
Representative Director President, Chung Won Kang (Seal)

KB Real Estate Trust Co., Ltd.
15~16th Floor, Poonglim Building, 823 Yeoksam-dong, Gangnum-gu, Seoul
Representative Director CEO, Jeong Min Kim (Seal)

KB Business Investment Co., Ltd.
9th Floor, Shinyoung Building, 68-5 Cheongdam-dong, Gangnam-gu, Seoul
Representative Director CEO, Nam Sik Yang (Seal)

KB Credit Information Co., Ltd.
12th Floor Korea Exchange Building, 33 Yeoido-dong, Yongdeungpo-gu, Seoul
Representative Director CEO, Sung Bok Park (Seal)

KB Data Systems Co., Ltd.
5,6th Floor, Korea Exchange Building, 33 Yeoido-dong, Yongdeungpo-gu, Seoul
Representative Director CEO, Yeon Geun Jung (Seal)

KB Asset Management Co., Ltd.
25th Floor, Good Morning Tower 23-2, Yeoido-dong, Yongdeungpo-gu, Seoul
Representative Director CEO, Won Ki Lee (Seal)

KB Futures Co., Ltd.
9th Floor, HP Building 23-6, Yoido-dong Youngdeungpo-gu, Seoul, Korea
Representative Director CEO, Kyu Hyung Jung (Seal)

KB Investment Securities Co., Ltd.
21, 22nd Floor, Good Morning Tower 23-2, Yeoido-dong, Yongdeungpo-gu, Seoul
Representative Director CEO, Myung Han Kim (Seal)

ADDENDUM(2009.03.27)

Article 1 (Effective Date)

The above amendments to the Articles of Incorporation shall take effect from March 27, 2009.

ADDENDUM(2010.03.26)

Article 1 (Effective Date)

These Articles of Incorporation become effective as of March 26, 2010. However, Article 30, Paragraph (1) becomes effective as of May 29, 2010.

Article 2 (Transitional Measures)

With respect to the non-executive directors appointed after these Articles of Incorporation become effective and the calculation of their terms of office under Article 38, Paragraph (5) hereof, Article 38, Paragraphs (6) and (7) will be applicable to the terms of office served before this Article of Incorporation becomes effective.

ADDENDUM(2012.03.23)

Article 1 (Effective Date)

The amendments to Article 40 of the Articles of Incorporation shall become effective from the date of approval by the General Meeting of Shareholders, March 23, 2012 and the other amendments shall become effective from April 15, 2012. Therefore, the amendments to the Articles of Incorporation shall not apply to any shares and bonds issued before the effective date of the Articles of Incorporation.

ADDENDUM(2015.03.27)

Article 1 (Effective Date)

The Articles of Incorporation shall become effective as of March 27, 2015; provided, that Article 37 shall apply to the Non-Executive Directors only who are appointed, reappointed or serve consecutive terms after the effective date hereof.

ADDENDUM(2016.03.25)

Article 1 (Effective Date)

The Articles of Incorporation shall become effective as of March 25, 2016; provided, that Article 43, Paragraph (6) and Article 44 shall become effective as of August 1, 2016.

ADDENDUM(2017.03.24)

Article 1 (Effective Date)

The Articles of Incorporation shall become effective as of March 24, 2017.

ADDENDUM(2018.03.23)

Article 1 (Effective Date)

The Articles of Incorporation shall become effective as of March 23, 2018; provided that Article 52 Paragraph (8), Article 55 Paragraph (1) Sub-paragraph 1, Article 55 Paragraph (4) and Article 56 shall become effective as of November 1. 2018.

ADDENDUM(2019.03.27)

Article 1 (Effective Date)

The above amendments to Article 9; Article 16, Paragraph (3); Article 17; Article 19, Paragraph (3); and Article 22 of the Articles of Incorporation shall enter into force on September 16, 2019, the expected date of enforcement of the Act on Electronic Registration of Stocks, Bonds, Etc., except that, if the enforcement date of such Act changes, these amendments shall enter into force of the new enforcement date instead.

ADDENDUM(2020.03.20)

Article 1 (Effective Date)

The Articles of Incorporation shall become effective as of March 20, 2020.

DESCRIPTION OF KB FINANCIAL GROUP'S AMERICAN DEPOSITARY SHARES

Unless otherwise indicated, all references in this section to "American Depositary Shares" are to American depositary shares of KB Financial Group Inc. ("KB Financial Group" or the "Company"), all references to "American Depositary Receipts" are to KB Financial Group American depositary receipts, and all references to "Shares" are to shares of KB Financial Group common stock.

JPMorgan Chase Bank, N.A. ("J.P. Morgan" or the "Depositary") is the depositary for the American depositary shares of KB Financial Group. The Depositary's offices are located at 383 Madison Avenue, Floor 11, New York, New York 10179, U.S.A. American depositary shares represent ownership interests in securities that are on deposit with the depositary and may be represented by certificates that are commonly known as American depositary receipts. The depositary typically appoints a custodian to safekeep the securities on deposit. In this case, the custodian is Korea Securities Depository, located in Seoul, Korea (the "Custodian").

The Depositary was appointed as depositary as of November 13, 2015 pursuant to the Fifth Amended and Restated Deposit Agreement among KB Financial Group, the Depositary, and all holders and beneficial owners from time to time of American depositary shares issued thereunder (the "Deposit Agreement"). A form of the Deposit Agreement was filed with the U.S. Securities and Exchange Commission (the "Commission") on November 13, 2015 under cover of a Registration Statement on Form F-6. You may obtain a copy of the form Deposit Agreement from the Commission's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 and from the Commission's website at <http://www.sec.gov>.

The following is a summary description of the material terms of the American Depositary Shares and of your material rights as an owner of such American Depositary Shares. We note that summaries by their nature lack the precision of the information summarized and that the rights and obligations of an owner of American Depositary Shares will be determined by reference to the terms of the Deposit Agreement and not by this summary. Please review the Deposit Agreement in its entirety.

Each American Depositary Share represents the right to receive one share of KB Financial Group common stock on deposit with the custodian. An American Depositary Share also represents the right to receive any other property received by the Depositary or the Custodian on behalf of the owner of the American Depositary Share but that has not been distributed to the owners of American Depositary Shares because of legal restrictions or practical considerations.

As an owner of American Depositary Shares, you are party to the Deposit Agreement and therefore are bound to its terms and to the terms of any American Depositary Receipt that represents your American Depositary Shares. The Deposit Agreement and the American Depositary Receipt specify KB Financial Group's rights and obligations as well as your rights and obligations as owner of American Depositary Shares and those of the Depositary. As a holder of American Depositary Shares, you appoint the Depositary to act on your behalf in certain circumstances. The Deposit Agreement and the American Depositary Receipts are governed by New York law. However, KB Financial Group's obligations to the holders of Shares are governed by the laws of Korea, which may be different from the laws in the United States.

In addition, applicable laws and regulations may require you to satisfy reporting requirements and obtain regulatory approvals in certain circumstances. You are solely responsible for complying with such reporting requirements and obtaining such approvals. None of the Depositary, the Custodian, KB Financial Group or any of their respective agents or affiliates are required to take any actions whatsoever on behalf of you to satisfy such reporting requirements or obtain such regulatory approvals under applicable laws and regulations.

Defined Terms

"Deposited Securities" as of any time means Shares at such time deposited or deemed to be deposited under the Deposit Agreement, including without limitation Shares that have not been successfully delivered upon

surrender of American Depositary Shares, and any and all other securities, property and cash received by the Depositary or the Custodian in respect or in lieu thereof and at such time held under the Deposit Agreement.

“Direct Registration Receipt” means a Receipt, the ownership of which is recorded on the Direct Registration System.

“Direct Registration System” means the system administered by DTC pursuant to which the Depositary may register the ownership of uncertificated American Depositary Shares, which ownership will be evidenced by periodic statements issued by the Depositary to the Owners entitled thereto.

“DTC” means The Depositary Trust Company or its successor.

“Foreign Registrar” means the entity that presently carries out the duties of registrar for the Shares or any successor as registrar for the Shares and any other agent of the Company for the transfer and registration of Shares, including without limitation any securities depository for the Shares.

“Holder” means any person holding a Receipt or a security entitlement or other interest in American Depositary Shares, whether for its own account or for the account of another person and whether or not constituting beneficial ownership, but that is not the Owner of that Receipt or those American Depositary Shares.

“Owner” means the person in whose name American Depositary Shares are registered on the Depositary’s register.

“Receipts” means the American Depositary Receipts evidencing certificated American Depositary Shares, as the same may be amended from time to time. Receipts may be either in physical certificated form or Direct Registration Receipts. References to “Receipts” will include certificated Receipts and Direct Registration Receipts, unless the context otherwise requires.

“Registrar” means any bank, trust company or other entity that is appointed by the Depositary to register American Depositary Shares and transfers of American Depositary Shares as provided in the Deposit Agreement.

“Restricted Securities” means Shares that (i) are acquired directly or indirectly from the Company or its affiliates (as defined in Rule 144 under the U.S. Securities Act of 1933, as amended (the “Securities Act”)) in a transaction or chain of transactions not involving any public offering, (ii) are subject to resale limitations under Regulation D under the Securities Act or both, (iii) are held by an officer, director (or persons performing similar functions) or other affiliate of the Company, (iv) would require registration under the Securities Act in connection with the offer and sale thereof in the United States, or (v) are subject to other restrictions on sale or deposit under the laws of the United States or Korea, or under a shareholder agreement or the articles of incorporation or similar document of the Company.

Record Dates

Whenever any cash dividend or other cash distribution becomes payable or any distribution other than cash is made, or whenever rights are issued with respect to the Deposited Securities, or whenever the Depositary receives notice of any meeting of holders of Shares or other Deposited Securities, or whenever for any reason the Depositary causes a change in the number of Shares that are represented by each American Depositary Share, the Depositary will fix a record date that will either (a) be the same date as the record date fixed by the Company, or (b) if different from the record date fixed by the Company, be as near as is practicable to such record date, or if not related to a record date fixed by the Company, be as of the date set by the Depositary (i) for the determination of the Owners of Receipts who will be (1) entitled to receive such dividend, distribution or rights or the net proceeds of the sale thereof, (2) entitled to give instructions for the exercise of voting rights at, and to attend (without voting or speaking), any such meeting or (3) responsible for any fees, charges or expenses assessed by

the Depositary pursuant to the Deposit Agreement, or (ii) on or after the date on which each American Depositary Share will represent the changed number of Shares. The Owners on such record date will be entitled to receive the amount distributable by the Depositary with respect to such dividend or other distribution or such rights or the net proceeds of sale thereof in proportion to the number of American Depositary Shares held by them respectively, be entitled to give voting instructions and to act in respect of any other such matter or be responsible for such fees, charges or expenses or will otherwise be obligated in accordance with the Deposit Agreement.

Voting of Deposited Securities

Upon receipt of notice of any meeting of holders of Shares or other Deposited Securities, if requested in writing by the Company, the Depositary will distribute to the Owners a notice that contains (a) such information as is contained in such notice of meeting, (b) a statement that the Owners as of the close of business on a specified record date will be entitled to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the amount of Shares or other Deposited Securities represented by their respective American Depositary Shares and (c) a statement as to the manner in which such instructions may be given, including instructions to give a discretionary proxy to a person designated by the Company. Upon the actual receipt by the ADR Department of the Depositary of the written request of an Owner of American Depositary Shares on such record date, received on or before the date established by the Depositary for such purpose, the Depositary will endeavor to vote or cause to be voted the amount of Shares or other Deposited Securities represented by those American Depositary Shares in accordance with the instructions set forth in such request. Owners and Holders are advised by the Company that to the extent the Depositary does not provide the Company with voting instructions from Owners with respect to all of the Deposited Securities, the Company will, to the extent in accordance with Korean law, treat those Deposited Securities for which voting instructions were not presented by the Depositary as having been voted in the same manner and in the same proportion as the holders of all other outstanding Shares vote their Shares. The Depositary will not vote (or give a proxy with respect to) Shares or other Deposited Securities other than in accordance with such instructions and will not itself exercise any voting discretion in respect of any Deposited Securities. An Owner acting on its own behalf or on behalf of a Holder will not be entitled to give any instructions with respect to voting rights associated with American Depositary Shares held by such Owner or Holder if and to the extent the total number of Shares represented by American Depositary Shares beneficially owned by such Owner or Holder, when aggregated with all other Shares beneficially owned by such Owner or Holder (including Shares beneficially owned by affiliates of such Owner or Holder), exceeds four (4) percent of the total number of shares with voting rights of the Company outstanding or any other limit under the Company's articles of incorporation or applicable law with respect to which the Company may, from time to time, notify the Depositary.

Notwithstanding anything contained in the Deposit Agreement or the Receipt, the Depositary may, in lieu of distribution of the materials provided to the Depositary in connection with any meeting of, or solicitation of consents or proxies from, holders of Deposited Securities, distribute to the Owners a notice that provides Owners with, or otherwise publicizes to Owners, instructions on how to retrieve such materials or receive such materials upon request (i.e., by reference to a website containing the materials for retrieval or a contact for requesting copies of the materials). Voting instructions will not be deemed received until such time as the ADR Department of the Depositary responsible for proxies and voting has received such instructions notwithstanding that such instructions may have been physically received by J.P. Morgan, as Depositary, prior to such time.

Dividends and Distributions

Whenever the Depositary receives any cash dividend or other cash distribution on any Deposited Securities, the Depositary will convert such dividend or distribution into Dollars and distribute the amount thus received (net of applicable fees, charges and expenses of the Depositary) to the Owners entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them respectively, subject to such distribution being permissible and practicable with respect to certain Owners, except that any

amount required to be withheld from such amount will be reduced accordingly. The Depositary will distribute only such amount, however, as can be distributed without attributing to any Owner a fraction of one cent. Any such fractional amounts will be rounded down to the nearest whole cent and so distributed to Owners entitled thereto.

Whenever the Depositary receives any distribution other than cash, shares or rights, the Depositary will cause the securities or property received by it to be distributed to the Owners entitled thereto (after deduction or upon payment of any applicable fees and expenses of the Depositary or any taxes or other governmental charges), in proportion to the number of American Depositary Shares representing such Deposited Securities held by them respectively, in any manner that the Depositary may deem equitable and practicable for accomplishing such distribution. However, if in the opinion of the Depositary such distribution cannot be made proportionately among the Owners of Receipts entitled thereto, the Depositary may, after consultation with the Company, adopt such method as it may deem equitable and practicable for the purpose of effecting such distribution. The Depositary may sell, by public or private sale, an amount of securities or other property it would otherwise distribute under these paragraphs that is sufficient to pay its fees and expenses in respect of that distribution.

If any distribution upon any Deposited Securities consists of a dividend in, or free distribution of, Shares, the Depositary may deliver to the Owners entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them respectively, Receipts evidencing an aggregate number of whole American Depositary Shares representing the amount of Shares received as such dividend or free distribution. In lieu of delivering fractional American Depositary Shares in any such case, the Depositary will sell the amount of Shares represented by the aggregate of such fractions and distribute the net proceeds. If additional American Depositary Shares are not so delivered, each American Depositary Share will thenceforth also represent the additional Shares distributed upon the Deposited Securities represented thereby.

In the event that the Depositary determines that any distribution in property other than cash (including Shares and rights to subscribe therefor) is subject to any tax or other governmental charge which the Depositary or the Custodian is obligated to withhold, the Depositary may by public or private sale dispose of all or a portion of such property (including Shares and rights to subscribe therefor) in such amounts and in such manner as the Depositary deems necessary and practicable to pay any such taxes or charges, and the Depositary will distribute the net proceeds of any such sale after deduction of such taxes or charges to the Owners of Receipts entitled thereto in proportion to the number of American Depositary Shares held by them respectively, all in accordance with the applicable provisions of the Deposit Agreement.

Before making any distribution or other payment on any Deposited Securities, the Company will make such deductions (if any) which, by the laws of Korea, the Company is required to make in respect of any income, capital gains or other taxes and the Company may also deduct the amount of any tax or governmental charges payable by the Company or for which the Company might be made liable in respect of such distribution or other payment or any document signed in connection therewith. In making such deductions, neither the Company nor the Depositary will have any obligation to any Owner or Holder to apply a rate under any treaty or other arrangement between Korea and the country within which the Owner or Holder is resident unless such Owner or Holder has timely provided to the Company or its agent (directly or through the Depositary) evidence of the residency of such Owner or Holder that is satisfactory to the relevant tax authorities of Korea. Neither the Company nor the Depositary has any obligation to solicit any such evidence of residency from Owners or Holders.

When reasonably requested by the Company prior to the distribution of dividends by the Company or in connection with a termination of the Deposit Agreement, the Depositary will send to all Owners entitled to receive such dividend or the proceeds of sale of Shares, as the case may be, a notice in a form which the Company will provide requesting evidence of each such Owner's country of tax residence. The Depositary will forward to the Company or its agent any such evidence received by it in order to establish such Owner's country of tax residence. The Depositary will have no obligations or liability to any person if any Owner fails to provide

such evidence or if such evidence does not reach relevant tax authorities in time or if for any other reason any Owner or Holder fails to obtain the benefit of any tax treaty or otherwise.

Rights

In the event that the Company offers to the holders of any Deposited Securities any rights to subscribe for additional Shares or any rights of any other nature (“Right”), the Depositary will distribute to each Owner entitled thereto on the record date set by the Depositary therefor at such Owner’s address shown on the register, in proportion to the number of Deposited Securities (on which the following distributions on Deposited Securities are received by the Custodian) represented by American Depositary Shares evidenced by such Owner’s Receipts (i) warrants or other instruments in the discretion of the Depositary representing rights to acquire additional Receipts in respect of any Rights to subscribe for additional Shares or Rights of any nature available to the Depositary as a result of a distribution on Deposited Securities, to the extent that the Company timely furnishes to the Depositary evidence satisfactory to the Depositary that the Depositary may lawfully distribute the same, or (ii) to the extent the Company does not so furnish such evidence and sales of Rights are practicable, any Dollars available to the Depositary from the net proceeds of sales of Rights as in the case of distribution received in cash, or (iii) to the extent the Company does not so furnish such evidence and such sales cannot practicably be accomplished by reason of the nontransferability of the Rights, limited markets therefor, their short duration or otherwise, nothing (and any Rights may lapse).

Conversion of Foreign Currency

Whenever the Depositary or the Custodian receives foreign currency, by way of dividends or other distributions or the net proceeds from the sale of securities, property or rights, and if at the time of the receipt thereof the foreign currency so received can in the reasonable judgment of the Depositary, pursuant to applicable law, be converted on a reasonable basis into Dollars and the resulting Dollars transferred to the United States, the Depositary will convert such foreign currency into Dollars, and, subject to the other provisions of the Deposit Agreement, such Dollars will be distributed to the Owners entitled thereto or, if the Depositary will have distributed any rights, warrants or other instruments which entitle the holders thereof to such Dollars, then to the holders of such rights, warrants and/or instruments upon surrender thereof for cancellation. Such distribution or conversion may be made upon an averaged or other practicable basis without regard to any distinctions among Owners on account of exchange restrictions, the date of delivery of any American Depositary Shares or otherwise and shall be net of any fees, charges and expenses provided for in the Deposit Agreement.

If such conversion or distribution can be effected only with the approval or license of, or filing a report to, any government or agency thereof and such approval or license is obtainable or such report can be filed at a reasonable cost and within a reasonable time, the Depositary will file such application for such approval or license, or such report.

If at any time the Depositary determines that any foreign currency received by the Depositary or the Custodian is not convertible on a reasonable basis into Dollars transferable to the United States, or if any approval or license of, or acceptance of any report to, any government or agency thereof which is required for such conversion is denied or in the opinion of the Depositary is not obtainable, or if any such approval or license or acceptance is not obtained within a reasonable period of time as determined by the Depositary, the Depositary may distribute the foreign currency (or an appropriate document evidencing the right to receive such foreign currency) received by the Depositary or Custodian to, or in its discretion may hold such foreign currency uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled to receive the same.

If any such conversion of foreign currency, in whole or in part, cannot be effected for distribution to some of the Owners entitled thereto, the Depositary may in its discretion make such conversion and distribution in Dollars to the extent permissible to the Owners entitled thereto and may distribute the balance of the foreign

currency received by the Depositary to, or hold such balance uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled thereto. In connection with the conversion of foreign currency into Dollars, the Depositary may deduct out of such foreign currency the fees, expenses and other charges charged by it and/or its agent (which may be a division, branch or affiliate) so appointed in connection with such conversion. J.P. Morgan and/or its agent may act as principal for such conversion of foreign currency.

Changes Affecting Deposited Securities

Upon any change in nominal value, change in par value, split-up, consolidation, or any other reclassification of Deposited Securities, or upon any distribution of shares or other securities or properties that is not distributed to Owners, or upon any recapitalization, reorganization, merger or consolidation, liquidation, receivership or bankruptcy of the Company or sale of assets affecting the Company, or upon the redemption or cancellation by the Company of the Deposited Securities, any securities, cash or property which will be received by the Depositary or a Custodian in exchange for, in conversion of, in lieu of or in respect of Deposited Securities will be treated as new Deposited Securities under the Deposit Agreement, and American Depositary Shares will thenceforth represent, in addition to the existing Deposited Securities, the right to receive the new Deposited Securities so received, unless additional Receipts are delivered pursuant to, or the Depositary takes any of the actions otherwise described in, the following sentence. In any such case the Depositary may amend the Receipt or deliver additional American Depositary Shares as in the case of a dividend in Shares, or call for the surrender of outstanding Receipts to be exchanged for new Receipts specifically describing such new Deposited Securities, or distribute any cash, securities or property received in respect of the Deposited Securities. As soon as practicable after the occurrence of any such change, conversion or exchange in respect of the Deposited Securities that affects holdings of American Depositary Shares, the Depositary will give notice thereof in writing to all Owners.

Transfers, Split-ups and Combinations of Receipts

Transfers of American Depositary Shares may be registered on the books of the Depositary by the Owner in person or by a duly authorized attorney, upon surrender of those American Depositary Shares properly endorsed for transfer or accompanied by proper instruments of transfer, in the case of a Receipt, or pursuant to a proper instruction (including, for the avoidance of doubt, instructions through the Direct Registration System), in the case of uncertificated American Depositary Shares, and funds sufficient to pay any applicable transfer taxes and the expenses of the Depositary and upon compliance with such regulations, if any, as the Depositary may establish for such purpose. The Receipt may be split into other such Receipts, or may be combined with other such Receipts into one Receipt, evidencing the same aggregate number of American Depositary Shares as the Receipt or Receipts surrendered. At the request of an Owner, the Depositary will, for the purpose of substituting a certificated Receipt with a Direct Registration Receipt, or vice versa, execute and deliver a certificated Receipt or a Direct Registration Receipt, as the case may be, for any authorized number of American Depositary Shares requested, evidencing the same aggregate number of American Depositary Shares as those evidenced by the certificated Receipt or Direct Registration Receipt, as the case may be, substituted. As a condition precedent to the issuance, delivery, registration, registration of transfer or surrender of any American Depositary Shares or split-up or combination of any Receipt, the delivery of any distribution thereon, or withdrawal of any Deposited Securities, the Depositary, the Custodian, or Registrar may require (a) payment with respect thereto of (i) any stock transfer or other tax or other governmental charge, (ii) any stock transfer or registration fees in effect for the registration of transfers of Shares or other Deposited Securities upon any applicable register and (iii) any applicable charges as provided in the Deposit Agreement; (b) the production of proof satisfactory to it of (i) the identity of any signatory and genuineness of any signature and (ii) such other information, including without limitation, information as to citizenship, residence, exchange control approval, beneficial ownership of any securities, compliance with applicable law, regulations, provisions of or governing Deposited Securities and terms of the Deposit Agreement, as it may deem necessary or proper; and (c) compliance with such regulations as the Depositary may establish consistent with the Deposit Agreement.

The delivery of American Depositary Shares against deposit of Shares generally or against deposit of particular Shares may be suspended, or the transfer of American Depositary Shares in particular instances may be refused, or the registration, registration of transfer, split-up or combination of outstanding American Depositary Shares or the withdrawal of Deposited Securities may be suspended, generally or in particular circumstances, during any period when the transfer books of the Depositary are closed, or if any such action is deemed necessary or advisable by the Depositary or, in the case of the withdrawal of Deposited Securities, the Company at any time or from time to time because of any requirement of law or of any government or governmental body or commission, or under any provision of the Deposit Agreement, or for any other reason. However, the surrender of outstanding American Depositary Shares and withdrawal of Deposited Securities may not be suspended subject only to (a) temporary delays caused by closing the transfer books of the Depositary or the Company or the Foreign Registrar, if applicable, or the deposit of Shares in connection with voting at a shareholders' meeting, or the payment of dividends, (b) the payment of fees, taxes and similar charges, and (c) compliance with any U.S. or foreign laws or governmental regulations relating to the American Depositary Shares or to the withdrawal of the Deposited Securities.

Reports; Inspection of Transfer Books

The Company is subject to the periodic reporting requirements of the Securities Exchange Act of 1934, as amended, and, accordingly, files reports with the Commission. Such reports and other information may be inspected and copied through the Commission's EDGAR system or at public reference facilities maintained by the Commission located at 100 F Street, N.E., Washington, D.C. 20549.

The Depositary will make available for inspection by Owners at an office of the Depositary any reports, notices and other communications, including any proxy soliciting material, received from the Company which are both (a) received by the Depositary as the holder of the Deposited Securities and (b) made generally available to the holders of such Deposited Securities by the Company. The Depositary will send to the Owners copies of such reports, notices and communications when furnished by the Company pursuant to the Deposit Agreement.

The Depositary will keep at its Transfer Office the ADR Register for the registration of Receipts and transfers of Receipts, which in the case of Direct Registration Receipts will include the Direct Registration System, and which at all reasonable times will be open for inspection by the Owners and the Company, provided that such inspection will not be for the purpose of communicating with Owners in the interest of a business or object other than the business of the Company or a matter related to the Deposit Agreement or the American Depositary Shares.

Surrender of American Depositary Shares and Withdrawal of Deposited Securities

Upon surrender at the Transfer Office of the Depositary of American Depositary Shares, and upon payment of the fees, charges and expenses of the Depositary provided in the Receipt and payment of all taxes and governmental charges payable in connection with such surrender and withdrawal of the Deposited Securities, and subject to the terms and conditions of the Deposit Agreement, the Company's articles of association and applicable laws, the Owner of those American Depositary Shares is entitled to delivery, to him or as instructed, of the amount of Deposited Securities at the time represented by those American Depositary Shares. Such delivery will be made either at the office of the Custodian or, to the extent permitted by applicable law, at the Transfer Office of the Depositary. The Depositary may deliver such Deposited Securities at such other place as may have been requested by the Owner at the request, risk and expense of such Owner.

Liability of Owner for Taxes

If any tax or other governmental charge becomes payable by the Custodian or the Depositary with respect to any American Depositary Shares or any Deposited Securities represented by any American Depositary Shares or any distribution thereon, such tax or other governmental charge is payable by the Owner to the Depositary and by

holding or having held a Receipt the Owner and all prior Owners thereof, jointly and severally, must indemnify, defend and save harmless each of the Depositary and its agents in respect thereof. The Depositary may refuse to effect any registration, registration of transfer, split-up or combination of Receipts or any withdrawal of Deposited Securities represented by those American Depositary Shares until such payment is made, and may withhold any dividends or other distributions, or may sell for the account of the Owner any part or all of the Deposited Securities represented by those American Depositary Shares, and may apply such dividends or other distributions or the proceeds of any such sale in payment of such tax or other governmental charge and the Owner will remain liable for any deficiency. Each Owner and Holder must indemnify the Depositary, the Company, the Custodian, and any of their agents, officers, directors, employees and affiliates for, and hold each of them harmless from, any claims with respect to taxes (including applicable additions to tax, interest and penalties thereon) arising from any tax benefit obtained for such Owner or Holder.

Representations and Warranties on Deposit of Shares

Every person depositing Shares under the Deposit Agreement is deemed to represent and warrant that (a) such Shares and each certificate therefor, if applicable, are duly authorized, validly issued, fully paid, nonassessable and legally obtained, and free of any preemptive or comparable rights of the holders of outstanding Shares, (b) the person making such deposit is duly authorized so to do, (c) the Shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim and (d) such Shares (A) are not Restricted Securities unless at the time of deposit the requirements of paragraphs (c), (e), (f) and (h) of Rule 144 do not apply and such Shares may be freely transferred and may otherwise be offered and sold freely in the United States or (B) have been registered under the Securities Act. To the extent the person depositing Shares is an “affiliate” of the Company as such term is defined in Rule 144, the person also represents and warrants that upon the sale of the American Depositary Shares, all of the provisions of Rule 144, which enable the Shares to be freely sold (in the form of American Depositary Shares), will be fully complied with and, as a result thereof, all of the American Depositary Shares issued in respect of such Shares will not be on the sale thereof, Restricted Securities. Every such person will also be deemed to represent such Shares are not subject to other restrictions on sale or deposit under the laws of the United States or Korea, or under a shareholder agreement or the articles of incorporation or similar document of the Company. Such representations and warranties will survive the deposit of Shares and delivery of American Depositary Shares. If any such representations or warranties are false in any way, the Company and the Depositary will be authorized, at the cost and expense of the person depositing Shares, to take any and all actions necessary to correct the consequences thereof.

Filing Proofs, Certificates and Other Information

Any person presenting Shares for deposit or any Owner or Holder may be required from time to time to file with the Depositary or the Custodian such proof of citizenship or residence, exchange control approval, payment of applicable Korean or other taxes or other governmental charges, legal or beneficial ownership of American Depositary Shares, Deposited Securities or other securities, compliance with all applicable laws or regulations, provisions of or governing Deposited Securities or terms of the Deposit Agreement or the Receipt, or such information relating to the registration on the shareholders’ register of the Company or the Foreign Registrar, if applicable, to execute such certificates and to make such representations and warranties, as the Depositary may reasonably deem necessary or proper or as the Company may reasonably require by written request to the Depositary. The Depositary may withhold the issuance, delivery, registration, registration of transfer, split-up or combination of any Receipts or the distribution of any dividend or sale or distribution of rights or of the proceeds thereof or the delivery of any Deposited Securities until such proof or other information is filed or such certificates are executed or such representations and warranties made. No Share will be accepted for deposit unless accompanied by evidence satisfactory to the Depositary that any necessary approval has been granted by any governmental body in each applicable jurisdiction that is then performing the function of the regulation of currency exchange. The Depositary will from time to time advise the Company of the availability of any such proofs, information, certificates or other representations and warranties and will provide copies thereof to the

Company as promptly as practicable upon reasonable request by the Company, unless such disclosure is prohibited by law.

Disclosure of Interests; Ownership Limitations; Reporting Obligations

The Company may from time to time request Owners or Holders or former Owners or Holders to provide information as to the capacity in which they hold or held Receipts and regarding the identity of any other persons then or previously interested in such Receipts and the nature of such interest and various other matters. Each such Owner or Holder must provide any such information reasonably requested by the Company or the Depositary whether or not still an Owner or Holder at the time of such request. The Depositary must forward any request for information received from the Company to those Owners and, to the extent the Depositary at the time requested has such information on its books and it is not a violation of its current procedures or policies, former Owners requested by the Company to the address on the books of the Depositary (or to the last known address, if any, of such former Owners) and to forward to the Company any responses to such requests received by the Depositary.

The Company may restrict transfers of the Shares where such transfer might result in ownership of Shares exceeding the limits under the articles of incorporation of the Company or applicable laws, or where such transfer would result in a deposit under the Deposit Agreement which is not permitted under the Deposit Agreement. The Company may also restrict, in such manner as it deems appropriate, transfers of the American Depositary Shares registered on the books of the Depositary in the name of a specified Owner where such transfer may cause the total number of Shares represented by the American Depositary Shares beneficially owned by a single Owner, when aggregated with all other Shares beneficially owned by such Owner (including Shares beneficially owned by affiliates of such Owner), to exceed four (4) percent of the aggregate number of shares with voting rights of the Company issued and outstanding, or any other limits under the articles of incorporation of the Company or applicable law with respect to which the Company may, from time to time, notify the Depositary. To the extent that the provisions of or governing any Deposited Securities may impose limits on beneficial or other ownership of Deposited Securities, other Shares and other securities and may provide for blocking transfer, voting or other rights to enforce such disclosure or limits, Owners and all persons holding Receipts must comply with all such ownership limitations and comply with any reasonable Company instructions in respect thereof. The Company may instruct Owners to deliver their American Depositary Shares for cancellation and withdrawal of the Deposited Securities so as to permit the Company to deal directly with the Owner thereof as a holder of Shares and Owners must comply with such instructions. The Depositary must cooperate with the Company in its efforts to inform Owners of the Company's exercise of its rights under the Deposit Agreement and must consult with, and provide reasonable assistance without risk, liability or expense on the part of the Depositary to, the Company on the manner or manners in which it may enforce such rights with respect to any Owner.

Under no circumstances will the restrictions on ownership set forth in the Deposit Agreement authorize or require the Depositary or the Company to seek to void, nullify or rescind any sale or transfer of American Depositary Shares effected over the New York Stock Exchange or in the DTC system.

Applicable laws and regulations may require beneficial owners and holders of Shares, including the Owners and Holders of American Depositary Shares, to satisfy reporting requirements and obtain regulatory approvals in certain circumstances. Owners and Holders of American Depositary Shares are solely responsible for determining and complying with such reporting requirements and obtaining such approvals. Each Owner and Holder must make such determination, file such reports, and obtain such approvals to the extent and in the form required by applicable laws and regulations as in effect from time to time. None of the Depositary, the Custodian, the Company or any of their respective agents or affiliates is required to take any actions whatsoever on behalf of Owners or Holders of American Depositary Shares to determine or satisfy such reporting requirements or obtain such regulatory approvals under applicable laws and regulations.

Liability of the Depositary

Neither the Depositary nor the Company nor any of their respective directors, employees, agents or affiliates will incur any liability to any Owner, Holder or third party, (a) if by reason of any provision of any present or future law, regulation, rule, fiat, order or decree of the United States, Korea or any other country or jurisdiction, or of any governmental or regulatory authority or stock exchange or market or automated quotation system, the provisions of or governing any Deposited Securities, or by reason of any provision, present or future, of the articles of incorporation of the Company, or by reason of any provision of any securities issued or distributed by the Company, or any offering or distribution thereof, or by reason of any act of God or war or terrorism, nationalization, expropriation, currency restrictions, work stoppage, strike, civil unrest, revolutions, rebellions, explosions, computer failure or other circumstances beyond its direct and immediate control, any of them will be prevented, delayed or forbidden from, or be subject to any civil or criminal penalty on account of, doing or performing any act or thing which by the terms of the Deposit Agreement or Deposited Securities it is provided will be done or performed (including, without limitation, voting pursuant to the Deposit Agreement), (b) by reason of any non-performance or delay, caused as aforesaid, in the performance of any act or thing which by the terms of the Deposit Agreement or the Deposited Securities it is provided will or may be done or performed, (c) by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreement (including, without limitation, any failure to determine that any distribution or action may be lawful or reasonably practicable), (d) for the inability of any Owner or Holder to benefit from any distribution, offering, right or other benefit which is made available to holders of Deposited Securities but is not, under the terms of the Deposit Agreement, made available to Owners or Holders, or (e) for any indirect, special, consequential or punitive damages (including without limitation, legal fees and expenses) or lost profits, in each case, of any form incurred by any person or entity, whether or not foreseeable and regardless of the type of action in which such a claim may be brought. Where, by the terms of distributions of cash, shares or other securities or properties pursuant to the Deposit Agreement, or an offering or distribution of rights pursuant to the Deposit Agreement, or for any other reason, such distribution or offering may not be made available to Owners of Receipts, and the Depositary may not dispose of such distribution or offering on behalf of such Owners and make the net proceeds available to such Owners, then the Depositary, subject to the terms of the Deposit Agreement and after consultation with the Company if practicable, will not make such distribution or offering, and will allow any rights, if applicable, to lapse.

The Depositary and its agents assume no obligation nor will any of them be subject to any liability under the Deposit Agreement to any Owner or Holder (including, without limitation, liability with respect to the validity or worth of the Deposited Securities), except to perform its obligations specifically set forth in the Deposit Agreement without gross negligence or willful misconduct. The Depositary and its agents will be under no obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or in respect of the American Depositary Shares. Neither the Depositary nor the Company nor any of their respective agents will be liable for any action or nonaction by it in reliance upon the advice of or information from legal counsel, accountants, any person presenting Shares for deposit, any Owner or Holder, or any other person believed by it in good faith to be competent to give such advice or information. The Depositary will not be liable for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with a matter arising wholly after the removal or resignation of the Depositary. The Depositary will not be liable for the acts or omissions made by, or the solvency of, any securities depository, clearing agency or settlement system. The Depositary and its agents will not be responsible for any failure to carry out any instructions to vote any of the Deposited Securities (provided that such failure is not in bad faith), or for the manner in which any such vote is cast or the effect of any such vote.

The Depositary will not be responsible for, and will incur no liability in connection with or arising from, the insolvency of any Custodian that is not a branch or affiliate of J.P. Morgan. The Depositary will not have any liability for the price received in connection with any sale of securities, the timing thereof or any delay in action or omission to act nor will it be responsible for any error or delay in action, omission to act, default or negligence on the part of the party so retained in connection with any such sale or proposed sale. The Depositary, its agents

and the Company may rely and will be protected in acting upon any written notice, request, direction, instruction or document believed by them to be genuine and to have been signed, presented or given by the proper party or parties. The Depositary will be under no obligation to inform Owners or Holders about the requirements of Korean law, rules or regulations or any changes therein or thereto. The Depositary may rely upon instructions from the Company in respect of any approval or license required for any currency conversion, transfer or distribution. The Depositary and its agents may own and deal in any class of securities of the Company and its affiliates and in Receipts. Notwithstanding anything to the contrary set forth in the Deposit Agreement or any Receipt, the Depositary and its agents may fully respond to any and all demands or requests for information maintained by or on its behalf in connection with the Deposit Agreement, any Owner or Owners, any Receipt or Receipts or otherwise related hereto or thereto to the extent such information is requested or required by or pursuant to any lawful authority, including without limitation, laws, rules, regulations, administrative or judicial process, banking, securities or other regulators. None of the Depositary, the Custodian or the Company will be liable for the failure by any Owner or Holder to obtain the benefits of credits on the basis of non-U.S. tax paid against such Owner's or Holder's income tax liability. The Depositary and the Company will not incur any liability for any tax consequences that may be incurred by Owners and Holders on account of their ownership of the Receipts or American Depositary Shares. The Depositary will not incur any liability for the content of any information submitted to it by or on behalf of the Company for distribution to the Owners or for any inaccuracy of any translation thereof, for any investment risk associated with acquiring an interest in the Deposited Securities, for the credit-worthiness of any third party, for allowing any rights to lapse upon the terms of the Deposit Agreement or for the failure or timeliness of any notice from the Company. Neither the Depositary, the Company nor any of their respective agents will be liable to Owners or Holders for any indirect, special, punitive or consequential damages (including, without limitation, legal fees and expenses) or lost profits, in each case of any form incurred by any person or entity, whether or not foreseeable and regardless of the type of action in which such a claim may be brought.

No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

Charges of Depositary

The Depositary may charge, and collect from, (i) each person to whom American Depositary Shares are issued, including, without limitation, issuances against deposits of Shares, issuances in respect of distributions of shares, rights and/or distributions other than cash, shares or rights, issuances pursuant to a stock dividend or stock split declared by the Company, or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the American Depositary Shares or the Deposited Securities, and (ii) each person surrendering American Depositary Shares for withdrawal of Deposited Securities or whose American Depositary Shares are cancelled or reduced for any other reason, U.S.\$5.00 or less for each 100 American Depositary Shares (or portion thereof) issued, delivered, reduced, cancelled or surrendered (as the case may be). The Depositary may sell (by public or private sale) sufficient securities and property received in respect of distributions of shares, rights and/or distributions other than cash, shares or rights prior to such deposit to pay such charge.

The following additional charges will be incurred by the Owners, by any party depositing or withdrawing Shares or by any party surrendering American Depositary Shares and/or to whom American Depositary Shares are issued (including, without limitation, issuances pursuant to a stock dividend or stock split declared by the Company or an exchange of stock regarding the American Depositary Shares or the Deposited Securities or a distribution of American Depositary Shares pursuant to the Deposit Agreement, whichever is applicable): (i) a fee of U.S.\$0.02 or less per American Depositary Share for any cash distribution, (ii) a fee of U.S.\$1.50 or less per Receipt or Receipts for transfers, (iii) a fee for the distribution or sale of securities, such fee being in an amount equal to the fee for the execution and delivery of American Depositary Shares referred to above which would have been charged as a result of the deposit of such securities (for purposes of these paragraphs treating all such securities as if they were Shares) but which securities or the net cash proceeds from the sale thereof are instead distributed by the Depositary to Owners entitled thereto, (iv) an aggregate fee of U.S.\$0.02 or less per American Depositary Share per calendar year (or portion thereof) for services performed by the Depositary in

administering the Receipts (which fee may be charged on a periodic basis during each calendar year and will be assessed against Owners as of the record date or record dates set by the Depositary during each calendar year and will be payable at the sole discretion of the Depositary by billing such Owners or by deducting such charge from one or more cash dividends or other cash distributions), and (v) a fee for the reimbursement of such fees, charges and expenses as are incurred by the Depositary and/or any of its agents (including, without limitation, the Custodian and expenses incurred on behalf of Owners in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in connection with the servicing of the Shares or other Deposited Securities, the sale of securities (including, without limitation, Deposited Securities), the delivery of Deposited Securities or otherwise in connection with the Depositary's or its Custodian's compliance with applicable law, rule or regulation (which fees and charges will be assessed on a proportionate basis against Owners as of the record date or dates set by the Depositary and will be payable at the sole discretion of the Depositary by billing such Owners or by deducting such charge from one or more cash dividends or other cash distributions).

The Company agrees to pay the other fees and reasonable out-of-pocket expenses of the Depositary and those of any agent of the Depositary (except the Custodian) only in accordance with agreements in writing entered into between the Depositary and the Company from time to time, except (i) stock transfer or other taxes and other governmental charges (which are payable by Owners or persons depositing Shares), (ii) cable, telex and facsimile transmission and delivery charges incurred at the request of persons depositing, or Owners delivering Shares, Receipts or Deposited Securities (which are payable by such persons or Owners), and (iii) transfer or registration fees for the registration or transfer of Deposited Securities on any applicable register in connection with the deposit or withdrawal of Deposited Securities (which are payable by persons depositing Shares or Owners withdrawing Deposited Securities; there were no such fees in respect of the Shares as of the date of the Deposit Agreement). The fees, charges and expenses incurred by the Depositary in connection with the conversion of foreign currency and the sale of securities will not be treated as fees of the Depositary notwithstanding J.P. Morgan or an affiliate thereof having participated in such conversion and/or sale, as the case may be, including in a principal capacity.

The fees, charges and expenses covered by these paragraphs may at any time and from time to time be changed by agreement between the Company and the Depositary.

Amendment and Termination of the Deposit Agreement

The form of the Receipts and any provisions of the Deposit Agreement may at any time and from time to time be amended by agreement between the Company and the Depositary without the consent of Owners or Holders. Any amendment which imposes or increases any fees or charges, or which otherwise prejudices any substantial existing right of Owners, will not, however, become effective as to outstanding American Depositary Shares until the expiration of 30 days after notice of such amendment has been given to the Owners of outstanding American Depositary Shares. Every Owner and Holder of American Depositary Shares, at the time any amendment so becomes effective, will be deemed, by continuing to hold such American Depositary Shares or any interest therein, to consent and agree to such amendment and to be bound by the Deposit Agreement as amended thereby. In no event will any amendment impair the right of the Owner to surrender American Depositary Shares and receive therefor the Deposited Securities represented thereby, except in order to comply with mandatory provisions of applicable law. However, if any governmental body or regulatory body or authority adopts new laws, rules or regulations which would require amendment or supplement of the Deposit Agreement or the form of the Receipts to ensure compliance therewith, the Company and the Depositary may amend or supplement the Deposit Agreement and the form of the Receipts at any time in accordance with such changed laws, rules or regulations. Such amendment or supplement to the Deposit Agreement in such circumstances may become effective before a notice of such amendment or supplement is given to the Owners and Holders or within any other period of time as required for compliance.

Notice of any amendment to the Deposit Agreement or the form of the Receipts will not need to describe in detail the specific amendments effectuated thereby, and failure to describe the specific amendments in any such

notice will not render such notice invalid. However, in each such case, the notice given to the Owners will identify a means for Owners and Holders to retrieve or receive the text of such amendment. Any amendments or supplements which (i) are reasonably necessary (as agreed by the Company and the Depositary) in order for (a) the American Depositary Shares to be registered on Form F-6 under the Securities Act or (b) the American Depositary Shares to be settled in electronic book-entry form and (ii) do not in either such case impose or increase any fees or charges to be borne by Owners or Holders, will be deemed not to prejudice any substantial rights of Owners or Holders.

The Company may at any time terminate the Deposit Agreement by instructing the Depositary to mail a notice of termination to the Owners of all American Depositary Shares then outstanding at least 30 days prior to the termination date included in such notice. The Depositary may likewise terminate the Deposit Agreement, if at any time 90 days have expired after the Depositary delivered to the Company a written resignation notice and even if a successor depositary has not been appointed and accepted its appointment as provided in the Deposit Agreement; in such case the Depositary will mail a notice of termination to the Owners of all American Depositary Shares then outstanding at least 30 days prior to the termination date. Until the termination date, the Depositary will continue to perform all of its obligations under the Deposit Agreement, and the Owners and Holders will be entitled to all of their rights, and subject to all of their obligations, under the Deposit Agreement.

On and after the termination date, the Owner of American Depositary Shares will, upon (a) surrender of such American Depositary Shares, (b) payment of the fees, charges and expenses of the Depositary under the Deposit Agreement, and (c) payment of any applicable taxes or governmental charges, be entitled to delivery of the amount of Deposited Securities represented by those American Depositary Shares. Except for these obligations which survive the termination of the Deposit Agreement, the obligation under the terms of the Deposit Agreement of Owners and Holders of American Depositary Shares outstanding as of the termination date will survive the termination date and will be discharged only when the applicable American Depositary Shares are presented by their Owners to the Depositary for cancellation under the terms of the Deposit Agreement and such Owners and Holders have otherwise complied with the provisions thereof.

If any American Depositary Shares remain outstanding after the termination date, the Depositary thereafter will discontinue the registration of transfers of American Depositary Shares, suspend the distribution of dividends to the Owners thereof, and not give any further notices or perform any further acts under the Deposit Agreement, except that the Depositary will continue to (i) collect dividends and other distributions pertaining to Deposited Securities and sell rights and other property as provided in the Deposit Agreement, (ii) deliver Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, upon surrender of American Depositary Shares (after deducting, in each case, the fees, charges and expenses of the Depositary for the account of the Owner of such American Depositary Shares in accordance with the terms and conditions of the Deposit Agreement, and any applicable taxes or governmental charges) and (iii) take such actions as may be required under applicable law in connection with its role as Depositary under the Deposit Agreement.

At any time after the expiration of four months from the termination date, the Depositary may sell the Deposited Securities then held under the Deposit Agreement and may thereafter hold uninvested the net proceeds of any such sale, together with any other cash then held by it thereunder, in an unsegregated account and without liability for interest, for the pro rata benefit of the Owners of American Depositary Shares that have not theretofore been surrendered, such Owners thereupon becoming general creditors of the Depositary with respect to such net proceeds. After making such sale, the Depositary will be discharged from all obligations under the Deposit Agreement, except (i) to account for such net proceeds and other cash, (ii) its obligations of indemnification under the Deposit Agreement and (iii) as may be required by law in connection with the termination of the Deposit Agreement. Upon the termination of the Deposit Agreement, the Company will be discharged from all obligations under the Deposit Agreement except for its obligations to the Depositary and its agents with respect to indemnification, charges and expenses.

I, Jong Kyoo Yoon, certify that:

1. I have reviewed this annual report on Form 20-F of KB Financial Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 24, 2020

/s/ Jong Kyoo Yoon

Jong Kyoo Yoon
Chairman and
Chief Executive Officer

I, Ki-Hwan Kim, certify that:

1. I have reviewed this annual report on Form 20-F of KB Financial Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 24, 2020

/s/ Ki-Hwan Kim

Ki-Hwan Kim
Deputy President and
Chief Finance Officer

Certification

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsection (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsection (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of KB Financial Group Inc., a corporation organized under the laws of the Republic of Korea (the “Company”), does hereby certify, to such officer’s knowledge, that:

The annual report on Form 20-F for the year ended December 31, 2019 (the “Form 20-F”) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: April 24, 2020

/s/ Jong Kyoo Yoon

Jong Kyoo Yoon
Chairman and
Chief Executive Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to KB Financial Group Inc. and will be retained by KB Financial Group Inc. and furnished to the U.S. Securities and Exchange Commission or its staff upon request.

Certification

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsection (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsection (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of KB Financial Group Inc., a corporation organized under the laws of the Republic of Korea (the “Company”), does hereby certify, to such officer’s knowledge, that:

The annual report on Form 20-F for the year ended December 31, 2019 (the “Form 20-F”) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: April 24, 2020

/s/ Ki-Hwan Kim

Ki-Hwan Kim
Deputy President and
Chief Finance Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to KB Financial Group Inc. and will be retained by KB Financial Group Inc. and furnished to the U.S. Securities and Exchange Commission or its staff upon request.

April 24, 2020

Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Commissioners:

We have read the statements made by KB Financial Group Inc. (copy attached), which we understand will be filed with the Securities and Exchange Commission, pursuant to Item 16F of Form 20-F of KB Financial Group Inc. dated April 24, 2020. We agree with the statements concerning our Firm contained therein.

Very truly yours,

/s/ Samil PricewaterhouseCoopers
Seoul, Korea