KakaoBank of Korea Corp.

Financial Statements
December 31, 2017 and 2016

KakaoBank of Korea Corp.
Index
December 31, 2017 and 2016

	Page(s)
Independent Auditor's Report	1 - 2
Financial Statements	
Statements of Financial Position	3
Statements of Comprehensive Income	4
Statements of Changes in Equity	5
Statements of Cash Flows	6
Notes to the Financial Statements	7 - 66
Report of Independent Auditor's Review of Internal Accounting Control System	67 - 68
Report on the Operations of the Internal Accounting Control System	69

Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Shareholders and Board of Directors of
KakaoBank of Korea Corp.

We have audited the accompanying financial statements of KakaoBank of Korea Corp (the Company), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Korean IFRS.

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

Samil PricewaterhouseCoopers

Seoul, Korea
February 28, 2018

This report is effective as at February 28, 2018, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

KakaoBank of Korea Corp.
Statements of Financial Position
December 31, 2017 and 2016

(in Korean won)	Notes		2017		2016
Assets					
Cash and due from financial institutions	4, 22, 24	₩	423,353,591,275	₩	225,030,574,660
Available-for-sale financial assets	5, 22, 24		308,944,443,539		-
Held-to-maturity financial assets	6, 22, 24		214,704,380,106		-
Loans	7, 22, 24		4,621,656,036,172		-
Property and equipment	8		32,664,776,427		5,744,680,921
Intangible assets	9		77,361,957,430		6,100,058,403
Current tax assets	23		376,476,780		111,618,570
Deferred tax assets	23		-		26,612,335
Net defined benefit assets	13		390,734,614		-
Other assets	10, 24		162,752,356,024		46,006,849,654
Total assets		₩	5,842,204,752,367	₩	283,020,394,543
Liabilities					
Deposits	12, 22, 24		5,048,299,700,757		-
Net defined benefit liabilities	13		-		648,158,165
Provisions	14		6,929,778,978		392,014,124
Other liabilities	15, 22, 24		119,118,497,913		1,611,851,939
Total liabilities			5,174,347,977,648		2,652,024,228
Equity					
Share capital	16		800,000,000,000		300,000,000,000
Capital adjustments	16		(11,534,296,500)		(4,329,862,500)
Accumulated other comprehensive income	16		(816,126,325)		-
Accumulated deficit	16		(119,792,802,456)		(15,301,767,185)
Total equity			667,856,774,719		280,368,370,315
Total liabilities and equity		₩	5,842,204,752,367	₩	283,020,394,543

The above statements of financial position should be read in conjunction with the accompanying notes.

KakaoBank of Korea Corp.
Statements of Comprehensive Income
Years Ended December 31, 2017 and 2016

(in Korean won)	Notes		2017		2016
Operating income					
Interest income	17	₩	50,325,415,168	₩	1,340,371,023
Fee and commission income	18		16,995,020,337		-
Gain on sale of available-for-sale financial assets			1,093,275,026		-
Other operating income	20		497,110,636		-
			68,910,821,167		1,340,371,023
Operating expense					
Interest expenses	17		17,823,136,485		10,769,953
Fee and commission expenses	18		55,254,549,672		3,607,243,171
Loss on sale of available-for-sale financial assets			2,311,604		-
Provision for credit losses	7		18,305,794,207		-
General and administrative expenses	19		75,374,167,353		13,051,477,500
Other operating expenses	20		6,359,167,435		-
			173,119,126,756		16,669,490,624
Operating loss			(104,208,305,589)		(15,329,119,601)
Non-operating income	21		9,667,075		740,081
Non-operating expenses	21		35,594,946		-
Loss before income tax			(104,234,233,460)		(15,328,379,520)
Income tax expense(benefit)	23		256,801,811		(26,612,335)
Loss for the period		₩	(104,491,035,271)	₩	(15,301,767,185)
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss					
Changes in the fair value of available-for-sale financial assets	16		(889,211,873)		-
Items that will not be reclassified to profit or loss					
Remeasurements of net defined benefit liability (asset)	13, 16		73,085,548		-
Other comprehensive loss for the period, net of tax			(816,126,325)		-
Total comprehensive loss for the period		₩	(105,307,161,596)	₩	(15,301,767,185)

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

KakaoBank of Korea Corp.
Statements of Changes in Equity
Years Ended December 31, 2017 and 2016

(in Korean won)

	Share Capital	Capital Adjustments	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
Balance at January 22, 2016	₩ 900,000,000	₩ (13,954,500)	₩ -	₩ -	₩ 886,045,500
Total comprehensive loss					
Loss for the period	-	-	-	(15,301,767,185)	(15,301,767,185)
Transactions with owners					
Issuance of ordinary shares	299,100,000,000	(4,315,908,000)	-	-	294,784,092,000
Balance at December 31, 2016	₩ 300,000,000,000	₩ (4,329,862,500)	₩ -	₩ (15,301,767,185)	₩ 280,368,370,315
Balance at January 1, 2017	₩ 300,000,000,000	₩ (4,329,862,500)	₩ -	₩ (15,301,767,185)	₩ 280,368,370,315
Total comprehensive income(loss)					
Loss for the period	-	-	-	(104,491,035,271)	(104,491,035,271)
Other comprehensive income(loss)					-
Changes in the fair value of available-for-sale financial assets	-	-	(889,211,873)	-	(889,211,873)
Remeasurements of net defined benefit liability (asset)	-	-	73,085,548	-	73,085,548
Transactions with owners					
Issuance of ordinary shares	500,000,000,000	(7,204,434,000)	-	-	492,795,566,000
Balance at December 31, 2017	₩ 800,000,000,000	₩ (11,534,296,500)	₩ (816,126,325)	₩ (119,792,802,456)	₩ 667,856,774,719

The above statements of changes in equity should be read in conjunction with the accompanying notes.

KakaoBank of Korea Corp.
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

(in Korean won)	Note		2017		2016
Cash flows from operating activities					
Loss for the period		₩	(104,491,035,271)	₩	(15,301,767,185)
Adjustment of profit (loss) items					
Interest income			(50,325,415,168)		(1,340,371,023)
Interest expenses			17,823,136,485		10,769,953
			(32,502,278,683)		(1,329,601,070)
Adjustment for non-cash items					
Gain on sale of available-for-sale financial assets			(1,090,963,422)		-
Provision for credit losses			18,305,794,207		-
Depreciation			3,326,947,542		482,077,631
Amortization			7,015,266,570		624,265,758
Income tax expense			256,801,811		-
Post-employment benefits			1,710,445,422		648,158,165
Unwinding of discount for asset retirement obligation			31,498,332		-
Long-term employee benefits			1,633,918,122		-
Provisions for unused loan commitments			3,846,352,748		-
			35,036,061,332		1,754,501,554
Change in operating assets and liabilities					
Increase in due from financial institutions			(403,425,603,745)		(17,425,556,130)
Increase in loans			(4,643,415,225,968)		-
Increase in plan assets			(2,655,638,780)		-
Increase in other assets			(147,094,157,910)		-
Increase in deposits			5,048,299,700,757		-
Increase (decrease) in other liabilities			103,184,944,360		(42,894,234,288)
			(45,105,981,286)		(60,319,790,418)
Income taxes paid			(264,858,210)		(111,618,570)
Interest received			43,374,406,557		720,053,064
Interest paid			(2,961,337,863)		-
Net cash outflow from operating activities			(106,915,023,424)		(74,588,222,625)
Cash flows from investing activities					
Disposal of available-for-sale financial assets			1,391,272,493,539		-
Acquisition of available-for-sale financial assets			(1,700,527,938,945)		-
Acquisition of held-to-maturity financial assets			(214,746,171,776)		-
Acquisition of property and equipment			(23,351,081,684)		(5,313,277,181)
Acquisition of intangible assets			(42,608,437,979)		(6,649,024,161)
Increase in leasehold deposits provided			(1,021,992,861)		(1,514,595,003)
Net cash outflow from investing activities			(590,983,129,706)		(13,476,896,345)
Cash flows from financing activities					
Proceeds from issuance of ordinary shares			492,795,566,000		294,783,097,500
Net cash inflow from financing activities			492,795,566,000		294,783,097,500
Effects of exchange rate changes on cash and cash equivalents			-		-
Net increase (decrease) in cash and cash equivalents			(205,102,587,130)		206,717,978,530
Cash and cash equivalents at the beginning of the year	4		207,605,018,530		887,040,000
Cash and cash equivalents at the end of the period	4	₩	2,502,431,400	₩	207,605,018,530

The above statements of cash flows should be read in conjunction with the accompanying notes.

1. The Company

KakaoBank of Korea Corp.(the "Company") is an internet-only bank that provides non-face-to-face banking service through electronic financial transaction method. The Company provides innovative customer service combining finance and IT technology, which is differentiated from common commercial banking service. The Company's headquarters is located at 231, Pangyoyeok-ro, Bundang-Gu, Seongnam-si, Gyeonggi-do, Korea. And, the Company operates two mobile banking centers and two data processing centers to provide better services to the customers.

The Company was established on January 22, 2016. The Company launched for the service on July 27, 2017, after obtaining an approval of internet-only bank business on April 5, 2017.

The initial capital of the Company is amounted to ₩900 million and as at December 31, 2017, the Company's capital has been increased to ₩800,000 million through issuance of ordinary shares. Shareholders as at December 31, 2017, are as follows:

	Number of shares (in shares)	Percentage of ownership (%)
Korea Investment Holdings Co., Ltd.	92,800,000	58.00
Kakao Corp.	16,000,000	10.00
Kookmin Bank	16,000,000	10.00
Netmarble Games Corporation	6,400,000	4.00
Seoul Guarantee Insurance Co., Ltd.	6,400,000	4.00
Korea Post	6,400,000	4.00
eBay Korea Co., Ltd.	6,400,000	4.00
Skyblue Luxury Investment Pte.Ltd.[1]	6,400,000	4.00
YES24 Co.,Ltd	3,200,000	2.00
	160,000,000	100.00

[1] Skyblue is a wholly-owned subsidiary of Tencent, a leading provider of internet value added services in China.

2. Basis of Preparation

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

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

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

The financial statements 2017 were approved for issue by the Board of Directors on February 7, 2018 and are subject to the approval of shareholders at their Annual General Meeting on March 22, 2018.

2.1 Measurement Basis

The financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position:

- Derivative financial instruments are measured at fair value
- Financial instruments at fair value through profit or loss are measured at fair value
- Available-for-sale financial instruments are measured at fair value
- Net defined benefit liabilities are recognized at the net of total the present value of net defined benefit obligations less the fair value of plan assets.

2.2 Functional and Presentation Currency

Items included in the financial statements of the Company are measured using the functional currency of the primary economic environment in which the Company operates. The financial statements are presented in Korean won, which is the Company's functional and presentation currency.

2.3 Accounting Estimates and Judgment

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

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.

Information about critical judgments of management in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements and assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial period is as follows:

Income taxes

The Company recorded, based on its best estimate, current taxes and deferred taxes that the Company will be liable in the future for the operating results as at the financial year end. However, the final tax outcome in the future may be different from the amounts that were initially recorded. Such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

Provisions for Credit Losses (allowances for loan losses, provisions for unused loan commitments)

The Company determines and recognizes allowances for loan losses through impairment testing and recognizes provisions for unused loan commitments. The provisions for credit losses are determined by the methodology and assumptions used for estimating collectively assessed allowances for groups of loans and unused loan commitments.

Net defined benefit liability

Net defined benefit liability depends on numerous factors, especially variation in discount rate that are determined based on an actuarial basis.

Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

3. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. The significant accounting policies applied in the preparation of these financial statements are the same as those that applied to the financial statements for the period ended December 31, 2016, except for the standards and amendments for the first time for their annual reporting period commencing January 1, 2017.

3.1 Foreign Currency Translation

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognized in other comprehensive income.

3.2 Cash and Cash Equivalents

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

3.3 Non-derivative Financial Assets

In relation to recognition and measurement, the Company classifies its financial assets into the following four categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to-maturity financial assets. The Company recognizes financial assets in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial assets consist of the following assets in the statement of financial position. Regular way purchases and sales of financial assets(i.e. a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned) are recognized on trade-date, the date on which the Company commits to purchase or sell the asset.

	Financial statement line item
Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss
Held-to-maturity financial assets	Held-to-maturity financial assets
Available-for-sale financial assets	Available-for-sale financial assets
Loans and receivables	Cash and due from financial institutions, loans, other financial assets[1]

[1] Other receivables, leasehold deposits, accrued income, deposits provided, domestic exchange settlement debits and others among other assets are included in loans and receivables.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition(issuance) of the financial asset.

Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss if they are held for trading (including derivative instrument assets) or designated as such upon initial recognition. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. At initial recognition, transaction costs are recognized in profit or loss when incurred.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company's management has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are subsequently measured at amortized cost using the effective interest method after initial recognition and interest income is recognized using the effective interest method.

Loans and Receivables

Non-derivative financial assets which meet all of following conditions are classified as loans and receivables:

- Those with fixed or determinable payments.
- Those that are not quoted in an active market

After initial recognition, these are subsequently measured at amortized cost using the effective interest method.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets or loans and receivables. Subsequent to initial recognition, they are measured at fair value, with changes in fair value, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or the rights to receive the contractual cash flows have been transferred from the financial assets as well as 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 Company has not retained control. If the Company retains control of financial assets, the Company continues to recognize the financial asset to the extent of its continuing involvement in the financial asset and recognized as a separate asset or liability.

If the Company 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 Company continues to recognize the transferred asset in its entirely and recognize a financial liability for the consideration received.

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.

Offsetting of financial assets and liabilities

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.4 Impairment of Financial Assets

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets except for financial assets at fair value through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. However, losses expected as a result of future events, no matter how likely, are not recognized.

Objective evidence that a financial asset or group of assets is impaired includes the following loss events:

- Significant financial difficulty of the issuer or obligor.
- A breach of contract, such as a default or delinquency in interest or principal payments.
- The lender, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.
- It becomes probable that the borrower will declare bankruptcy or undergo financial reorganization.
- The disappearance of an active market for that financial asset because of financial difficulties.
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio.

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

Loans

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

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

Impairment loss reduces the carrying amount of the asset through use of an allowance account, and when a loan becomes uncollectable, it is written off against the related allowance account. If the loan which was written off is subsequently collected, the amount of the allowance increase. The amount of the different between the allowance is recognized in profit or loss.

Individual assessment of impairment

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

Collective assessment of impairment

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

Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is reclassified from equity and to profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

3.5 Property and Equipment

Property and equipment are measured at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. The cost includes any costs directly attributable to the acquisition of the items.

Depreciation of all property and equipment, except for land, is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

	Estimated useful lives
Tools and equipment	5 years
Others	5

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

3.6 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 are amortized using the straight-line method with no residual value over their estimated useful economic life since the asset is available for use.

	Estimated useful lives
Software	5 years
Development costs	5
Other intangible assets	5

The amortization period and the amortization method for intangible assets with a finite useful life are reviewed at least at each financial year end. Where an intangible asset is not being amortized because its useful life is considered to be indefinite, the Company 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 finite useful life is accounted for as a change in an accounting estimate.

Expenditures on research activities or the research phase of an internal project are recognized in profit or loss as incurred. Development expenditures are capitalized only if the Company can demonstrate the technical feasibility of completing the intangible asset, its intention and ability to complete the intangible asset and use or sell it, the availability of adequate resources and probable future economic benefits, and the expenditure attributable to the intangible asset during its development can be measured reliably. Other development expenditures are recognized in profit or loss as incurred.

3.7 Impairment of Non-financial Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs of disposal and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

3.8 Share Capital

Ordinary share is classified as equity and the incremental costs arising directly attributable to the equity transactions less their tax effects are deducted from equity.

3.9 Leases

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

3.10 Employee Compensation and Benefits

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 Company 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.

Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods. 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 arising from experience adjustments and changes in actuarial assumptions are recognized in profit or loss in the period in which they arise.

Post-employment Benefits: Net defined benefit plan

Post-employment benefits are payable after the completion of employment, and the benefit amount depends on the employee’s age, periods of service or salary levels. The liability recognized in the statement of financial position in respect of net defined benefit plans is the present value of the net defined benefit obligation at the end of the reporting period less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the net defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, in other comprehensive income.

Changes in the present value of the net defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

Post-employment Benefits: Defined contribution plan

For defined contribution plan, when an employee has rendered service to the Company during a period, the Company recognizes the contribution payable to a defined contribution plan in exchange for that service as profit or loss except in the case of their inclusion in the cost of an asset.

3.11 Provisions

Provisions are recognized when the Company 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 a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized as an asset when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

3.12 Finance Income and Costs

(a) Interest income and expenses

Interest income and expense are recognized using the effective interest method in the statements of comprehensive income. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

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 Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the Company 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.

(b) Fee and commission Income

The Company recognizes fees and commissions as an income as services are provided. Fee and commission income are accounted for as follows. Fee and commission income from financial services is accounted in accordance with accounting standards of financial instruments.

① When the earned fee and commission are a significant component of effective interest rate from the related financial assets, the income is accounted for using the effective interest rate method.
② Fee and commission income earned as service are provided are recognized throughout the service period.
③ Fee and commission income that are earned on the execution of a significant act are recognized as revenue when the significant act has been completed.

(c) Dividend income

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

3.13 Income Tax Expenses

The tax expense for the period consists of current and deferred tax. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. The tax expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, 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 tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis.

3.14 Operating Segments

According to Korean IFRS 1108 *Operating Segments*, the Company omitted disclosure for operating segment as the Company has a single operating segment. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments and the Board of Directors that makes strategic decisions is considered as the chief operating decision-maker.

3.15 New standards and Interpretations not yet Adopted by the Company

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Company for annual periods beginning on after January 1, 2017, and the Company has not early adopted them.

- Korean IFRS 1109 *Financial Instruments*

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

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

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

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

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

(a) Classification and Measurement of Financial Assets

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

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

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

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

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

According to Korean IFRS 1109, debt instruments those contractual cash flows do not represent solely payments of principal and interest and held for trading, and equity instruments that are not designated as instruments measured at fair value through other comprehensive income are measured at fair value through profit or loss.

As at December 31, 2017, the Company does not hold debt securities, equity securities and other financial assets classified as financial assets at fair value through profit or loss.

A debt security is measured at fair value through other comprehensive income if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets. As at December 31, 2017, the Company holds debt securities of ₩ 308,944,443,539 classified as financial assets available-for-sale.

According to Korean IFRS 1109, equity instruments that are not held for trading, the Company can make an irrevocable election at initial recognition to classify the instruments as assets measured at fair value through other comprehensive income, which all subsequent changes in fair value being recognized in other comprehensive income and not recycled to profit or loss. As at December 31, 2017, the Company does not hold equity securities classified as financial assets available-for-sale.

According to Korean IFRS 1109, a debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. As at December 31, 2017, the Company measured loans and receivables of ₩ 5,218,873,240,828 and financial assets held-to-maturity of ₩ 214,704,380,106 at amortized costs.

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

(in Korean won)	**Classification in accordance with**		**Amount in accordance with**	
	Korean IFRS1039	**Korean IFRS 1109**	**Korean IFRS1039**	**Korean IFRS 1109**
Due from financial institutions	Loans and receivables	Measured at amortized cost	₩ 420,851,159,875	₩ 420,851,159,875
Loans	Loans and receivables	Measured at amortized cost	4,639,922,956,516	4,639,922,956,516
Other financial assets	Loans and receivables	Measured at amortized cost	158,099,124,437	158,099,124,437
Debt securities	Available-for-sale financial assets	Recognized at fair value through other comprehensive income	308,944,443,539	308,944,443,539
Debt securities	Held-to-maturity financial assets	Measured at amortized cost	214,704,380,106	214,704,380,106

[1] The amount is before the allowance for loan losses is deducted.

(b) Classification and Measurement of Financial Liabilities

Korean IFRS 1109 requires the amount of the change in the liability's fair value attributable to changes in the credit risk to be recognized in other comprehensive income, unless this treatment of the credit risk component creates or enlarges a measurement mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss. Based on the result from the impact assessment, since no financial liability is designated at fair value through profit or loss, the Company does not expect the amendment to have impact on the financial statements.

(c) Impairment: Financial Assets and Contract Assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under Korean IFRS 1039.

It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, lease receivables, contract assets, loan commitments and certain financial guarantee contracts.

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

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

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

Based on the result from the impact assessment, the changes in loss allowance and total capital ratio in applying Korean IFRS 1109, are estimated as follows.

Loss allowance

(in Korean won)	**Loss allowance in accordance with**		
	Korean IFRS 1039 (A)	**Korean IFRS 1109 (B)**	**Difference (B-A)**
Due from financial institutions, loans and other assets			
Stage 1	₩ 17,662,368,431	₩ 18,013,846,645	₩ 351,478,214
Stage 2	217,997,732	234,644,227	16,646,495
Stage 3	425,428,044	425,428,044	-
	18,305,794,207	18,673,918,916	368,124,709
Debt securities			
Stage 1	-	-	-
Stage 2	-	-	-
Stage 3	-	-	-
	-	-	-
Provisions			
Stage 1	3,837,966,972	3,914,344,318	76,377,346
Stage 2	8,385,776	8,552,604	166,828
Stage 3	-	-	-
	3,846,352,748	3,922,896,922	76,544,174
	₩ 22,152,146,955	₩ 22,596,815,838	₩ 444,668,883

Total capital ratio

	Loss allowance in accordance with		
	Korean IFRS 1039 (A)	**Korean IFRS 1109 (B)**	**Difference (B-A)**
Tier I Capital	13.25	13.24	(0.01)
Tier II Capital	0.49	0.49	-
Total capital ratio	13.74	13.73	(0.01)

- Enactments of Korean IFRS 1115*, Revenue from Contracts with Customers*

Korean IFRS 1115 *Revenue from Contracts with Customers* issued on November 6, 2015 replaces Korean IFRS 1018 *Revenue*, Korean IFRS 1011 *Construction Contracts*, Interpretation 2031 *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113 *Customer Loyalty Programs*, Interpretation 2115 *Agreements for the Construction of Real Estate* and Interpretation 2118 *Transfers of assets from customers.*

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

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

The new standard will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Company does not expect the application of Korean IFRS 1115 to have a significant impact on financial statements.

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

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

The Company does not expect the application of IFRS 1007 to have a significant impact on financial statements.

- Enactment of Korean IFRS 1116 *Leases*

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

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

The Company does not expect the application of IFRS 1116 to have a significant impact on financial statements.

4. Cash and Due from Financial Institutions

Details of cash and due from financial institutions as at December 31, 2017 and 2016, are as follows:

(in Korean won)	2017	2016
Cash and cash equivalents		
Cash	₩ 1,000,000,000	₩ -
Ordinary deposits	1,502,431,400	105,018,530
Others	-	207,500,000,000
	2,502,431,400	207,605,018,530
Due from financial institutions in Korean won		
Time deposits	571,224,694	17,425,556,130
Reserve deposits	420,279,935,181	-
	420,851,159,875	17,425,556,130
	₩ 423,353,591,275	₩ 225,030,574,660

Restricted deposits as at December 31, 2017 and 2016, are as follows:

(in Korean won)	Financial Institutions	2017	2016	Reason for restriction
Due from financial institutions in Korean won				
Time deposits	Woori Bank	₩ 571,224,694	₩ 425,556,130	Pledged as head office lease deposit
Reserve deposits	Bank of Korea	420,279,935,181	-	Settlement risk of Bank of Korea
		₩ 420,851,159,875	₩ 425,556,130	

5. Available-for-sale Financial Assets

Details of available-for-sale financial assets as at December 31, 2017 and 2016, are as follows:

(in Korean won)	2017	2016
Debt securities		
Government bonds	₩ 69,809,358,304	₩ -
Financial bonds	189,105,957,776	-
Corporate bonds	50,029,127,459	-
	₩ 308,944,443,539	₩ -

There is no impairment loss on available-for-sale financial assets for the year ended December 31, 2017.

6. Held-to-maturity Financial Assets

Details of held-to-maturity financial assets as at December 31, 2017 and 2016, are as follows:

(in Korean won)	2017	2016
Debt securities		
Government bonds	₩ 89,345,977,551	₩ -
Financial bonds	10,004,300,877	-
Corporate bonds	115,354,101,678	-
	₩ 214,704,380,106	₩ -

7. Loans

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

(in Korean won)	2017	2016
Retail loan	₩ 4,621,831,541,158	-
Deferred loan origination fees and costs	18,091,415,358	-
	4,639,922,956,516	-
Less: Allowances for loan losses	(18,266,920,344)	-
	₩ 4,621,656,036,172	-

Changes in the allowances for loan losses for the periods ended December 31, 2017 and 2016, are as follows:

(in Korean won)	2017	2016
Beginning balance	₩ -	₩ -
Provision	18,266,920,344	-
Reversal	-	-
Written-off	-	-
Ending balance	₩ 18,266,920,344	₩ -

Changes in the deferred loan origination fees and costs for the periods ended December 31, 2017 and 2016, are as follows:

(in Korean won)	2017	2016
Beginning balance	₩ -	₩ -
Increase	25,035,331,540	-
Decrease	6,943,916,182	-
Ending balance	₩ 18,091,415,358	₩ -

8. Property and Equipment

Details of property and equipment as at December 31, 2017 and 2016, are as follows:

(in Korean won)	2017		
	Acquisition cost	**Accumulated depreciation**	**Book amount**
Tools and equipment	₩ 32,047,659,057	₩ (3,092,446,598)	₩ 28,955,212,459
Others	4,426,142,543	(716,578,575)	3,709,563,968
	₩ 36,473,801,600	₩ (3,809,025,173)	₩ 32,664,776,427

(in Korean won)	2016		
	Acquisition cost	**Accumulated depreciation**	**Book amount**
Tools and equipment	₩ 4,778,316,381	₩ (295,015,226)	₩ 4,483,301,155
Others	1,448,442,171	(187,062,405)	1,261,379,766
	₩ 6,226,758,552	₩ (482,077,631)	₩ 5,744,680,921

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

(in Korean won)	2017				
	Beginning balance	**Acquisitions**	**Depreciation**	**Others**	**Ending balance**
Tools and equipment	₩ 4,483,301,155	₩ 27,269,342,676	₩ (2,797,431,372)	₩ -	₩ 28,955,212,459
Others	1,261,379,766	1,951,704,720	(529,516,170)	1,025,995,652	3,709,563,968
	₩ 5,744,680,921	₩ 29,221,047,396	₩ (3,326,947,542)	₩ 1,025,995,652	₩ 32,664,776,427

(in Korean won)	2016				
	Beginning balance	**Acquisitions**	**Depreciation**	**Others**	**Ending balance**
Tools and equipment	₩ -	₩ 4,778,316,381	₩ (295,015,226)	₩ -	₩ 4,483,301,155
Others	-	1,067,198,000	(187,062,405)	381,244,171	1,261,379,766
	₩ -	₩ 5,845,514,381	₩ (482,077,631)	₩ 381,244,171	₩ 5,744,680,921

9. Intangible Assets

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

(in Korean won)	2017		
	Acquisition cost	Accumulated amortization	Book amount
Development costs	₩ 62,182,924,664	₩ (5,121,665,449)	₩ 57,061,259,215
Software	16,250,466,384	(2,512,247,145)	13,738,219,239
Other intangible assets	6,568,098,710	(5,619,734)	6,562,478,976
	₩ 85,001,489,758	₩ (7,639,532,328)	₩ 77,361,957,430

(in Korean won)	2016		
	Acquisition cost	Accumulated amortization	Book amount
Development costs	₩ 253,331,100	₩ (4,222,184)	₩ 249,108,916
Software	6,470,993,061	(620,043,574)	5,850,949,487
	₩ 6,724,324,161	₩ (624,265,758)	₩ 6,100,058,403

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

(in Korean won)	2017			
	Beginning balance	Acquisitions	Amortization	Ending balance
Development costs	₩ 249,108,916	₩ 61,929,593,564	₩ (5,117,443,265)	₩ 57,061,259,215
Software	5,850,949,487	9,779,473,323	(1,892,203,571)	13,738,219,239
Other intangible assets	-	6,568,098,710	(5,619,734)	6,562,478,976
	₩ 6,100,058,403	₩ 78,277,165,597	₩ (7,015,266,570)	₩ 77,361,957,430

(in Korean won)	2016			
	Beginning balance	Acquisitions	Amortization	Ending balance
Development costs	₩ -	₩ 253,331,100	₩ (4,222,184)	₩ 249,108,916
Software	-	6,470,993,061	(620,043,574)	5,850,949,487
	₩ -	₩ 6,724,324,161	₩ (624,265,758)	₩ 6,100,058,403

10. Other Assets

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

(in Korean won)	2017	2016
Other financial assets		
Other receivables	₩ 123,982,418	₩ -
Accrued income	11,394,262,477	612,500,488
Guarantee deposits	2,640,246,994	1,585,556,130
Domestic exchange settlement debits	143,939,841,102	-
Financial suspense payments	791,446	-
Less: Allowances for loan losses	(38,873,863)	-
Present value discount	(118,798,251)	(63,143,656)
	157,941,452,323	2,134,912,962
Other assets		
Prepaid expenses	1,637,499,523	302,439,262
Others	3,173,404,178	43,569,497,430
	4,810,903,701	43,871,936,692
	₩ 162,752,356,024	₩ 46,006,849,654

Changes in allowances for loan losses on other assets for the periods ended December 31, 2017 and 2016, are as follows:

(in Korean won)	2017	2016
Beginning balance	₩ -	₩ -
Provisions	38,873,863	-
Reversal	-	-
Written-off	-	-
Ending balance	₩ 38,873,863	₩ -

11. Assets Pledged as Collateral

Details of assets pledged as collateral as at December 31, 2017 and 2016, are as follows:

(in Korean won)	2017	2016	Reason for the pledged
Due from financial institutions in Korean won			
Time deposits	₩ 517,224,694	₩ 425,556,130	Pledged as head office rental deposit
Reserve deposits	420,279,935,181	-	Settlement risk of Bank of Korea
Securities			
Held-to-maturity financial assets	109,841,914,826	-	Settlement risk of Bank of Korea
	₩ 530,693,074,701	₩ 425,556,130	

12. Deposits

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

(in Korean won)	2017	2016
Demand deposits		
Demand deposits in Korean won	₩ 1,646,184,232,048	₩ -
Time deposits		
Time deposits in Korean won	3,402,115,468,709	-
	₩ 5,048,299,700,757	₩ -

13. Net Defined Benefit Assets and Liabilities

The Company operates net defined benefit plans based on the service period of employees.

Details of net defined benefit liabilities (assets) recognized in the statements of financial position as at December 31, 2017 and 2016, are as follows:

(in Korean won)	2017	2016
Present value of net defined benefit obligations	₩ 2,223,088,595	₩ 648,158,165
Fair value of plan assets	2,613,823,209	-
Net defined benefit liabilities (assets) [1]	₩ (390,734,614)	₩ 648,158,165

[1] The amount of the surplus of plan asset is similar to the expected value of economic benefit available of surplus, and therefore the asset ceiling is not recognized.

Changes in the net defined benefit obligations for the periods ended December 31, 2017 and 2016, are as follows:

(in Korean won)		**2017**		**2016**
Beginning balance	₩	648,158,165	₩	-
Current service cost		1,689,859,926		648,158,165
Interest expense		20,585,496		-
Remeasurements[1]		(84,890,070)		-
Payments		(50,624,922)		-
Ending balance	₩	2,223,088,595	₩	648,158,165

[1] As at December 31, 2017, remeasurements consist of actuarial gain from change in financial assumptions of ₩ 60,462,452 and actuarial gain from experience adjustments of ₩ 24,427,618.

Changes in the fair value of plan assets for the periods ended December 31, 2017 and 2016, are as follows:

(in Korean won)		**2017**		**2016**
Beginning balance	₩	-	₩	-
Remeasurements		8,809,351		-
Contributions of employer		2,655,638,780		-
Payments		(50,624,922)		-
Ending balance	₩	2,613,823,209	₩	-

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

(in Korean won)		**2017**		**2016**
ELB of NH Investment & Securities Co.,Ltd.	₩	2,613,819,951	₩	-
Cash equivalents		3,258		-
	₩	2,613,823,209	₩	-

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

(in percentage, %)	**2017**	**2016**	
Discount rate (expected yield)	3.76	3.39	AA- corporate bond yields
Salary growth rate	2.00	2.00	Standard rate announced by Korea Insurance Development Institute

The sensitivity of the net defined benefit obligation to changes in the principal assumptions is:

(in Korean won)		**2017**		**2016**
Discount rate				
1% point increase	₩	(178,985,063)	₩	(50,932,430)
1% point decrease		207,709,093		59,245,373

(in Korean won)		**2017**		**2016**
Salary growth rate				
1% point increase	₩	209,587,360	₩	59,543,496
1% point decrease		(183,668,861)		(52,084,909)

The weighted average duration of the net defined benefit obligation for the periods ended December 31, 2017 and 2016 is 9.31 years and 9.35 years, respectively.

Expected contributions to plan assets for the period after December 31, 2017, is estimated to be approximately ₩ 1,506 million.

14. Provisions

Details of provisions for the periods ended December 31, 2017 and 2016, are as follows:

(in Korean won)	2017			
	Provisions for asset retirement obligation [1]	Provisions for unused loan commitments	Long-term employee benefits	Total
Beginning balance	₩ 392,014,124	₩ -	₩ -	₩ 392,014,124
Unwinding of discount	31,498,332	-	-	31,498,332
Effect of changes in discount rate	18,629,147	-	-	18,629,147
Provisions	1,007,366,505	3,846,352,748	1,633,918,122	6,487,637,375
Reversal	-	-	-	-
Used during year	-	-	-	-
Ending balance	₩ 1,449,508,108	₩ 3,846,352,748	₩ 1,633,918,122	₩ 6,929,778,978

(in Korean won)	2016	
	Provisions for asset retirement obligation	Total
Beginning balance	₩ -	₩ -
Unwinding of discount	10,769,953	10,769,953
Provisions	381,244,171	381,244,171
Reversal	-	-
Used during year	-	-
Ending balance	₩ 392,014,124	₩ 392,014,124

[1] Provisions for asset retirement obligation are present value of estimated costs to be incurred for asset retirement obligation of the leased properties. Actual expenses are expected to be incurred at the end of each lease contract and five years of depreciation period of leased properties are used as discount period.

15. Other Liabilities

Details of other liabilities as at December 31, 2017 and 2016, are as follows:

(in Korean won)		2017		2016
Other financial liabilities				
Other payables	₩	67,220,459,636	₩	1,459,533,719
Accrued expenses		14,861,798,622		-
Domestic exchange settlement credits		35,652,895,295		-
Liabilities incurred from agency relationship		444,142,542		-
Others		495,706		-
		118,179,791,801		1,459,533,719
Other liabilities				
Unearned revenue		67,440,192		-
Withholding taxes		865,908,020		140,110,130
Others		5,357,900		12,208,090
		938,706,112		152,318,220
	₩	119,118,497,913	₩	1,611,851,939

16. Equity

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

(in Korean won)		2017		2016
Share capital				
Ordinary shares	₩	800,000,000,000	₩	300,000,000,000
Capital adjustments				
Discount on share issuance		(11,534,296,500)		(4,329,862,500)
Accumulated other comprehensive income				
Changes in the fair value of available-for-sale financial assets		(889,211,873)		-
Remeasurements of net defined benefit liability (asset)		73,085,548		-
Accumulated deficit				
Accumulated deficit before appropriation		(119,792,802,456)		(15,301,767,185)
	₩	667,856,774,719	₩	280,368,370,315

Details of share capital as at December 31, 2017 and 2016, are as follows:

(in Korean won, in shares)	**2017**	**2016**
	Ordinary shares	**Ordinary shares**
Number of shares authorized	400,000,000	400,000,000
Par value	₩ 5,000	₩ 5,000
Number of shares issued	160,000,000	60,000,000
Share capital	₩ 800,000,000,000	₩ 300,000,000,000

Changes in accumulated other comprehensive income for the periods ended December 31, 2017 and 2016, are as follows:

(in Korean won)	**2017**		**2016**
	Changes in the fair value of available-for-sale financial assets	**Remeasurements of net defined benefit liability (asset)**	**Changes in the fair value of available-for-sale financial assets**
Beginning balance	₩ -	₩ -	₩ -
Increase (decrease) due to fair value measurement	(1,140,015,222)	93,699,421	-
Tax effect	250,803,349	(20,613,873)	-
Ending balance	₩ (889,211,873)	₩ 73,085,548	₩ -

The disposition of accumulated deficit for the year ended December 31, 2017, is expected to be disposed at the shareholders' meeting on March 22, 2018. The disposition date for the year ended December 31, 2016, was March 23, 2017.

The disposition of accumulated deficit for the periods ended December 31, 2017 and 2016, is as follows:

(in millions of Korean won)	**2017**	**2016**
Undisposed accumulated deficit carried over from prior year	₩ (15,301,767,185)	₩ -
Loss for the period	(104,491,035,271)	(15,301,767,185)
Disposition of accumulated deficit	-	-
Undisposed accumulated deficit to be carried forward	₩ (119,792,802,456)	₩ (15,301,767,185)

17. Net Interest Income and Expenses

Details of interest income and expenses for the periods ended December 31, 2017 and 2016, are as follows:

(in Korean won)		2017		2016
Interest income				
Due from financial institutions	₩	819,098,518	₩	1,330,286,242
Loans		45,937,599,629		-
Available-for-sale financial assets		2,271,377,185		-
Held-to-maturity financial assets		1,170,303,818		-
Others		127,036,018		10,084,781
		50,325,415,168		1,340,371,023
Interest expenses				
Deposits		17,700,223,519		-
Debts		51,876,708		-
Others		71,036,258		10,769,953
		17,823,136,485		10,769,953
	₩	32,502,278,683	₩	1,329,601,070

18. Fee and Commission Income and Expenses

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

(in Korean won)		2017		2016
Fee and commission income				
Remittance related fees	₩	392,543,100	₩	-
Card related fees		15,693,478,446		-
Electronic finance related fees		789,135,003		-
Others		119,863,788		-
		16,995,020,337		-
Fee and commission expenses				
Lending activity related fees		762,106,525		-
Card related fees		37,048,663,665		-
Electronic finance related fees		796,907,000		-
CD/ATM fees		5,891,829,190		-
Stamp taxes		4,916,086,100		-
Budget related fees		3,995,791,873		3,607,243,171
Others		1,843,165,319		-
		55,254,549,672		3,607,243,171
	₩	(38,259,529,335)	₩	(3,607,243,171)

19. General and Administrative Expenses

Details of general and administrative expenses for the periods ended December 31, 2017 and 2016, are as follows:

(in Korean won)		**2017**		**2016**
Employee benefits				
Short-term employee benefits	₩	21,102,676,533	₩	6,509,629,231
Long-term employee benefits		1,633,918,122		-
Post-employment benefits- net defined benefit plan		1,710,445,422		648,158,165
Post-employment benefits- defined contribution plan		40,062,910		-
		24,487,102,987		7,157,787,396
Depreciation		3,326,947,542		482,077,631
Amortization		7,015,266,570		624,265,758
Other administrative expenses				
Welfare expenses		4,646,485,356		1,470,892,142
Rental expenses		4,311,851,687		1,421,453,125
Advertising expenses		12,984,229,522		-
Computer operation expenses		9,664,565,973		1,137,889,098
Taxes and dues		973,388,112		38,397,390
Travel expenses		310,169,337		91,045,123
Communication expenses		1,352,972,933		172,310,431
Supplies expenses		750,639,971		192,771,887
Service contract expenses		4,752,531,209		118,209,472
Others		798,016,154		144,378,047
		40,544,850,254		4,787,346,715
	₩	75,374,167,353	₩	13,051,477,500

20. Other Operating Income and Expenses

Details of other operating income and expenses for the periods ended December 31, 2017 and 2016, are as follows:

(in Korean won)		2017		2016
Other operating income				
Gain on foreign exchange transactions	₩	497,010,636	₩	-
Others		100,000		-
	₩	497,110,636	₩	-
Other operating expenses				
Provisions for unused loan commitments	₩	3,846,352,748	₩	-
Deposit insurance expenses		2,491,536,000		-
Others		21,278,687		-
	₩	6,359,167,435	₩	-

21. Non-operating Income and Expenses

Details of non-operating income and expenses for the periods ended December 31, 2017 and 2016, are as follows:

(in Korean won)		2017		2016
Other operating income				
Others	₩	9,667,075	₩	740,081
Other operating expenses				
Donation	₩	28,152,000	₩	-
Others		7,442,946		-
	₩	35,594,946	₩	-

22. Financial Instruments by Category

Carrying amounts of financial assets and liabilities by category as at December 31, 2017 and 2016, are as follows:

(in Korean won)	2017				
	Available-for-sale financial assets	**Held-to-maturity financial assets**	**Loans and receivables**	**Financial liabilities at amortized cost**	**Total**
Financial assets					
Cash and due from financial institutions	₩ -	₩ -	₩ 423,353,591,275	₩ -	₩ 423,353,591,275
Available-for-sale financial assets	308,944,443,539	-	-	-	308,944,443,539
Held-to-maturity financial assets	-	214,704,380,106	-	-	214,704,380,106
Loans	-	-	4,621,656,036,172	-	4,621,656,036,172
Other financial assets	-	-	157,941,452,323	-	157,941,452,323
	₩ 308,944,443,539	₩ 214,704,380,106	₩ 5,202,951,079,770	₩ -	₩ 5,726,599,903,415
Financial liabilities					
Deposits	₩ -	₩ -	₩ -	₩ 5,048,299,700,757	₩ 5,048,299,700,757
Other financial liabilities	-	-	-	118,179,791,801	118,179,791,801
	₩ -	₩ -	₩ -	₩ 5,166,479,492,558	₩ 5,166,479,492,558

(in Korean won)	2016				
	Available-for-sale financial assets	**Held-to-maturity financial assets**	**Loans and receivables**	**Financial liabilities at amortized cost**	**Total**
Financial assets					
Cash and due from financial institutions	₩ -	₩ -	₩ 225,030,574,660	₩ -	₩ 225,030,574,660
Other financial assets	-	-	2,134,912,962	-	2,134,912,962
	₩ -	₩ -	₩ 227,165,487,622	₩ -	₩ 227,165,487,622
Financial liabilities					
Other financial liabilities	₩ -	₩ -	₩ -	₩ 1,459,533,719	₩ 1,459,533,719
	₩ -	₩ -	₩ -	₩ 1,459,533,719	₩ 1,459,533,719

Net gains or losses on each category of financial instruments for the periods ended December 31, 2017 and 2016, are as follows:

(in Korean won)	2017					
	Net interest income (expense)	**Net fee and commission income (expense)**	**Provision for credit losses**	**Others**	**Total**	**Other comprehensive income(loss).**
Financial assets						
Available-for-sale financial assets	₩ 2,271,377,185	₩ -	₩ -	₩ 1,090,963,422	₩ 3,362,340,607	₩ (889,211,873)
Held-to-maturity financial assets	1,170,303,818	-	-	-	1,170,303,818	-
Loans and receivables	46,883,734,165	(1,722,828,693)	(18,305,794,207)	-	26,855,111,265	-
	₩ 50,325,415,168	₩ (1,722,828,693)	₩ (18,305,794,207)	₩ 1,090,963,422	₩ 31,387,755,690	₩ (889,211,873)
Financial liabilities						
Financial liabilities at amortized cost	₩ (17,791,638,153)	₩ (640,977,100)	₩ -	₩ -	₩ (18,432,615,253)	₩ -

(in Korean won)	2016			
	Net interest income (expense)	**Net fee and commission income (expense)**	**Others**	**Total**
Financial assets				
Loans and receivables	₩ 1,340,371,023	₩ -	₩ -	₩ 1,340,371,023
	₩ 1,340,371,023	₩ -	₩ -	₩ 1,340,371,023
Financial liabilities				
Financial liabilities at amortized cost	₩ -	₩ -	₩ -	₩ -

23. Tax Expense and Deferred Tax

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

(in Korean won)		**2017**		**2016**
Current tax	₩	-	₩	-
Changes in deferred tax due to temporary differences[1]		26,612,335		(26,612,335)
Income tax recognized directly in equity		230,189,476		-
Income tax expense (revenue)	₩	256,801,811	₩	(26,612,335)

[1] No deferred tax assets have been recognized, due to the uncertainty of realization.

An analysis of the net loss before income tax and income tax expense(revenue) for the periods ended December 31, 2017 and 2016, is as follows::

(in Korean won)		**2017**		**2016**
Loss before income tax expense	₩	(104,234,233,460)	₩	(15,328,379,520)
Tax at the applicable tax rate[1]		(24,762,684,497)		(3,350,243,494)
Non-deductible expense		5,185,638		587,819,117
Other adjustments		25,014,300,670		2,735,812,042
Unrecognized deferred tax asset		23,334,140,996		2,815,118,381
Effect of tax rate		1,680,159,674		(79,306,339)
Income tax expense (benefit)	₩	256,801,811	₩	(26,612,335)
Average effective tax rate (%)		-		0.17%

[1] Applicable tax rate for ₩ 200 million and below is 11%, for over ₩ 200 million to ₩ 20 billion is 22%, and for over ₩ 20 billion is 24.2%.

The movements of deferred tax assets and liabilities for the periods ended and as at December 31, 2017 and 2016, are as follows:

(in Korean won)	2017			
	Beginning balance	**Statement of profit or loss**	**Other comprehensive income (capital adjustments)**	**Ending balance**
Provisions for asset retirement obligation	₩ 17,983,177	₩ 43,908,691	₩ -	₩ 61,891,868
Post-employment pension	156,854,276	(222,202,018)	(20,613,873)	(85,961,615)
Accrued interest	(148,225,118)	(323,176,948)	-	(471,402,066)
Leasehold guarantee deposits	15,280,765	10,854,850	-	26,135,615
Prepaid rent	(15,280,765)	(10,854,850)	-	(26,135,615)
Provisions for unused loan commitments	-	1,205,659,591	-	1,205,659,591
Available-for-sale financial assets (gain (loss) on valuation)	-	-	250,803,349	250,803,349
Available-for-sale financial assets (Interest amortization)	-	57,629,015	-	57,629,015
Held-to-maturity financial assets (Interest amortization)	-	9,194,167	-	9,194,167
Unused annual leave	-	35,413,984	-	35,413,984
Accrued expenses (service contract expenses)	-	(19,515,096)	-	(19,515,096)
Reversal of regular welfare expense	-	116,405	-	116,405
Legal fiction of instant depreciation	-	4,213,042	-	4,213,042
	26,612,335	791,240,833	230,189,476	1,048,042,644
Tax losses	2,813,669,448	22,126,492,146	-	24,940,161,594
Unused tax credit	1,448,933	159,606,206	-	161,055,139
	2,815,118,381	22,286,098,352	-	25,101,216,733
	₩ 2,841,730,716	₩ 23,077,339,185	₩ 230,189,476	₩ 26,149,259,377
Amount excluded in recognition of deferred tax assets (liabilities) [1]	₩ 2,815,118,381	₩ 23,334,140,996	₩ -	₩ 26,149,259,377
Amount included in recognition of deferred tax assets (liabilities)	₩ 26,612,335	₩ (256,801,811)	₩ 230,189,476	₩ -

[1] No deferred tax assets have been recognized, due to the uncertainty of realization.

(in Korean won)	2016			
	Beginning balance	**Statement of profit or loss**	**Other comprehensive income (capital adjustments)**	**Ending balance**
Provisions for asset retirement obligation	₩ -	₩ 17,983,177	₩ -	₩ 17,983,177
Post-employment pension	-	156,854,276	-	156,854,276
Accrued interest	-	(148,225,118)	-	(148,225,118)
Leasehold guarantee deposits	-	15,280,765	-	15,280,765
Prepaid rent	-	(15,280,765)	-	(15,280,765)
	-	26,612,335	-	26,612,335
Tax losses	-	2,813,669,448	-	2,813,669,448
Unused tax credit	-	1,448,933	-	1,448,933
	-	2,815,118,381	-	2,815,118,381
	₩ -	₩ 2,841,730,716	₩ -	₩ 2,841,730,716
Amount excluded in recognition of deferred tax assets (liabilities) [1]	₩ -	₩ 2,815,118,381	₩ -	₩ 2,815,118,381
Amount included in recognition of deferred tax assets (liabilities)	₩ -	₩ 26,612,335	₩ -	₩ 26,612,335

[1] No deferred tax assets have been recognized, due to the uncertainty of realization.

The aggregate current and deferred tax relating to items that are charged or credited directly to equity for the year ended December 31, 2017, is as follows:

(in Korean won)	2017		2016		
	Amount before income tax	**Tax effect**	**Amount before income tax**	**Tax effect**	**Increase (decrease) in tax effect**
Changes in the fair value of available-for-sale financial assets	₩ (1,140,015,222)	₩ 250,803,349	₩ -	₩ -	₩ 250,803,349
Remeasurements of net defined benefit liability (asset)	93,699,421	(20,613,873)	-	-	(20,613,873)

There was no deferred tax relating to items that are charged or credited directly to equity for the year ended December 31, 2016.

Details of unrecognized deductible temporary differences, tax losses and unused tax credit as at December 31, 2017 and 2016, are as follows:

(in Korean won)		2017		2016
Deductible temporary differences	₩	4,763,830,202	₩	-
Tax losses[1]		113,364,370,884		12,789,406,581
Tax credit[1]		154,861,699		1,448,933
Deduction of donation		28,152,000		-
	₩	118,311,214,785	₩	12,790,855,514

[1] The maturity of unused losses, tax credit, and deduction of donation is as follows:

(in Korean won)		2017		2016
2021	₩	1,448,933	₩	1,448,933
2022		181,564,766		-
2026		12,789,406,581		12,789,406,581
2027		100,574,964,303		-
	₩	113,547,384,583	₩	12,790,855,514

24. Financial Instruments Risk Management

24-1. Overview of Risk Management

24-1.1 Risk Management

The financial risks that the Company is exposed to are credit risk, liquidity risk, market risk, operational risk and others. The Company manages risk by type, nature, size, and complexity of the risk.

This note regarding financial risk management provides information about the risks that the Company is exposed to, including the objectives, policies and processes for managing the risks, the methods used to measure the risks, and capital management. Additional quantitative information is disclosed throughout the financial statements.

24-1.2 Risk Management Organization

Board of Directors

The Board of Directors is the ultimate decision-making authority that appoints and dismisses risk management committee, reviews and resolves matters of the Board Risk Committee subject to resolution.

Board Risk Committee

The Board Risk Committee establishes comprehensive risk management policies such as the recognition, measurement and control of all the risks faced by the Company, including the basic policies and strategies for risk management. We are monitoring compliance.

Executive Risk Committee

The Executive Risk Committee is a consultative group which reviews matters delegated by the Board Risk Committee. The Executive Risk Committee is responsible for organizing and managing the risks that may arise in the Company management, as well as supporting the Board of Directors (including the Committee) and management.

Risk Management Group

The Risk Management Group is responsible for managing specific policies, procedures and work processes relating to the Company's risk management.

24-2. Credit Risk

24-2.1 Overview of Credit Risk

Credit risk represents the possibility of financial losses incurred when the counterparty fails to fulfill its contractual obligations. The range of credit risk includes on- and off-balance sheet items (such as loans and securities) related risks.

24-2.2 Credit Risk Management

To measure the probability of default on the counterparty, the Company uses the credit rating system developed in a statistical method to give a credit rating to the borrower and measures the Credit risk by considering exposure at default and the loss given default. The credit rating system is used not only to give credit rating to new borrowers, but also to monitor the changes in credit rating of existing borrowers periodically to renew their credit rating automatically, reserve for provide allowance for bad debts, and select symptoms of bad credit.

In order to manage credit risk, the Company has concluded insurance contracts for subrogation with Seoul Guarantee Insurance Co., Ltd., only for products with high uncertainty. The Company prepares to launch various loan loans including residential mortgage loans to mitigate credit risk and distribute the portfolio.

The Company has organized a credit risk management group that focuses on credit risk management in accordance with the Company's credit risk management policy. The Company's credit group which is independent from the operating department, is responsible for establishing risk management rules and guideline, developing and monitoring credit evaluation models, measuring the credit risk, reviewing credit, measuring the credit risk internal capital, adjusting credit limits, managing operating risk and others.

24-2.3 Maximum Exposure to Credit Risk

The maximum exposure to credit risk of financial assets is the carrying amount less provision for credit losses, which represents the uncertainty that carrying amount of financial assets could change due to the variation of the specific risk factor without considering the collateral held or other credit reinforcement.

The Company's maximum exposures of financial instruments, excluding equity securities, to credit risk without consideration of collateral as at December 31, 2017 and 2016, are as follows:

(in Korean won)	2017	2016
On-balance sheet items		
Due from financial institutions	₩ 422,353,591,275	₩ 225,030,574,660
Loans	4,621,656,036,172	-
Available-for-sale financial assets	308,944,443,539	-
Held-to-maturity financial assets	214,704,380,106	-
Other financial assets	157,941,452,323	2,134,912,962
	5,725,599,903,415	227,165,487,622
Off-balance sheet items		
Unused loan commitment	2,814,039,320,902	-
	₩ 8,539,639,224,317	₩ 227,165,487,622

24-2.4 Credit Risk of Loans

The Company maintains an allowance for loan losses associated with credit risk on loans to manage its credit risk.

Loans are categorized as at December 31, 2017 and 2016, are as follows:

(in Korean won)	Retail			
	2017		2016	
	Amount	%	Amount	%
Neither past due nor impaired	₩ 4,636,893,486,063	99.93	₩ -	-
Past due but not impaired	2,153,956,564	0.05	-	-
Impaired	875,513,889	0.02	-	-
	4,639,922,956,516	100.00	-	-
Allowance	(18,266,920,344)		-	
Carrying amount	₩ 4,621,656,036,172		₩ -	

Past-due represents a situation where counterparty cannot pay principal and interest on the payment due date as stated in the contract. Impairments losses are incurred if there is an objective evidence of impairment and that loss event has an impact on the estimated future cash flows that can be reliably estimated. The Company considers that there is an objective evidence of impairment if overdue of payments for 90 and more than 90 days and trouble debt restructuring.

Credit qualities of loans that are neither past due nor impaired as at December 31, 2017 and 2016, are as follows:

(in Korean won)	Retail	
	2017	2016
GRADE1	₩ 3,455,363,356,915	₩ -
GRADE2	579,208,862,789	-
GRADE3	414,555,709,446	-
GRADE4	145,156,142,455	-
GRADE5	42,609,414,458	-
	₩ 4,636,893,486,063	₩ -

[1] Criteria of GRADE

GRADE1 : 0.75% and less than 0.75% of probability of default
GRADE2 : 1.35% and less than 1.35% of probability of default
GRADE3 : 5% and less than 5% of probability of default
GRADE4 : 10% and less than 10% of probability of default
GRADE5 : Over 10% of probability of default

Credit qualities of loans that are past due but not impaired as at December 31, 2017 and 2016, are as follows:

(in Korean won)	Retail	
	2017	**2016**
1~29 days	₩ 1,908,167,606	₩ -
30~59 days	181,133,388	-
60~89 days	64,655,570	-
	₩ 2,153,956,564	₩ -

Impaired loans as at December 31, 2017 and 2016, are as follows:

(in Korean won)	Retail	
	2017	**2016**
Loans	₩ 875,513,889	₩ -
Allowance		
Individually assessed allowance	-	-
Collectively assessed allowance	(424,810,508)	-
	₩ 450,703,381	₩ -

A quantification of the extent to which collateral and other credit enhancements mitigate credit risk as at December 31, 2017 and 2016, are as follows:

(in Korean won)	2017		2016	
	Impaired Loans	**Non-impaired Loans**	**Impaired Loans**	**Non-impaired Loans**
Guarantee insurance securities of Seoul Guarantee Insurance Co., Ltd.	₩ 370,985,134	₩ 550,757,878,192	₩ -	₩ -

24-2.5 Credit risk concentration by industry

Details of the Company's securities as at December 31, 2017 and 2016, are as follows:

(in Korean won)	2017		2016	
	Amount	%	Amount	%
Available-for-sale financial assets				
Government / Public institution / Central bank	₩ 238,970,467,384	77.35	₩ -	-
Others	69,973,976,155	22.65	-	-
	308,944,443,539	100.00	-	-
Held-to-maturity financial assets				
Government / Public institution / Central bank	99,350,278,428	46.27	-	-
Others	115,354,101,678	53.73	-	-
	₩ 214,704,380,106	100.00	₩ -	-

As the Company has only retail loans, the industrial information is not presented.

24-2.6 Credit risk concentration by region

As the Company has only domestic operating activities, the regional information is not presented.

24-2.7 Details of debt securities

Debt securities that are neither past due nor impaired as at December 31, 2017 and 2016, are as follows:

(in Korean won)	2017	2016
Available-for-sale financial assets	₩ 308,944,443,539	₩ -
Held-to-maturity financial assets	214,704,380,106	-
	₩ 523,648,823,645	₩ -

24-2.8 Details of securities categorized by the credit ratings

Details of securities categorized by the credit rating as at December 31, 2017 and 2016 are as follows:

(in Korean won)	2017		
	Available-for-sale financial assets	Held-to-maturity financial assets	Total
AAA	₩ 69,973,976,155	₩ 115,354,101,678	₩ 185,328,077,833
No rating			
Government bonds	69,809,358,304	89,345,977,551	159,155,335,855
Monetary stabilization bonds	169,161,109,080	10,004,300,877	179,165,409,957
	₩ 308,944,443,539	₩ 214,704,380,106	₩ 523,648,823,645

The Company did not hold securities as at December 31, 2016.

24-3. Liquidity Risk

24-3.1 Overview of Liquidity Risk

Liquidity risk is the risk of insolvency or loss due to a disparity of contract maturity between assets and liabilities, the risk of loss in the cash flow of bank assets due to market price decrease following market crisis.

24-3.2 Liquidity Risk Management

The liquidity coverage ratio (LCR), the management guidance rate of the Financial Supervisory Service, is calculated and managed by the ALM Risk Management System and also calculated and monitored daily. For internal management, the Board Risk Committee sets and manages a limit on liquidity risks separately from the regulatory levels of the supervisory authorities, and reports their compliance to the Executive Risk Committee every month. Depending on the scenarios resulting from the liquidity crisis situation, the analysis are reported to the Executive Risk Committee on a quarterly basis and the plan for the crisis are reported also at least annually. The Company also establish and monitor early alarm indicators, report their results to the Executive Risk Committee on a monthly basis, and establish contingency funding plan for liquidity crisis.

Details of remaining contractual maturity of financial liabilities as at December 31, 2017 and 2016, are as follows:

(in Korean won)	2017			
	Financial liabilities			**Off-balance sheet items**
	Deposits	**Others**	**Total**	**Unused loan commitment**
Up to 1 month	₩ 1,908,307,583,665	₩ 103,317,993,179	₩ 2,011,625,576,844	₩ 2,814,039,320,902
1~3 months	251,651,570,147	-	251,651,570,147	-
3~6 months	172,362,170,376	-	172,362,170,376	-
6~12 months	2,500,288,983,469	-	2,500,288,983,469	-
1~5 years	279,508,508,039	-	279,508,508,039	-
Over 5 years	102,180,708	-	102,180,708	-
	₩ 5,112,220,996,404	₩ 103,317,993,179	₩ 5,215,538,989,583	₩ 2,814,039,320,902

(in Korean won)		2016
		Financial liabilities
		Others
Up to 1 month	₩	1,459,533,719
1~3 months		-
3~6 months		-
6~12 months		-
1~5 years		-
Over 5 years		-
	₩	1,459,533,719

The time period classification above was subdivided based on the judgment of management. The amounts disclosed above include undiscounted contractual principal and interest to be paid and the Company classified the amounts as the earliest due date for our payment obligation.

24-4. Market Risk

24-4.1 Overview of Market Risk

Market risk is the risk of losses that may arise due to fluctuation in market price, such as interest rates, equity prices, and foreign exchange rates, and will affect the Company's income or the value of its trading portfolios. The Company may be exposed to market risks by possessing net foreign currency position, marketable securities, derivatives, and other financial instruments assets and liabilities with inherent market risks. The Company manages market risks by separating them into trading positions and non-trading positions, depending on the holding purpose and characteristics of financial instruments.

The purpose of managing market risks is to pursue profitability and stability simultaneously by determining the maximum possible loss in assets and liabilities exposed to fluctuation in market prices, such as interest rates, stock prices and exchange rates and managing the loss within the allowable limit of the Company.

24-4.2 Management of Market Risk

Market risk Management for trading positions

A trading position is the position of a financial instrument held with the intention of trading or to reduce or eliminate the risk of other trading positions.

The Company measures and manages the market risk associated with our trading position by dividing it into general market risks and individual risks. General market risk refers to the risk of loss of target position due to changes in the general level of market prices such as interest rate, stock price, and exchange rate. Individual risk refers to the risk of loss of target position due to changes in credit risk of bonds and equity issuers as well as changes in general market prices. The Company measures the general market risk and individual risk using the standardized approach in accordance with the "Detailed Regulations on Supervision of Banking Business" <Appendix 3-2> "Standard for Calculation of Capital-to-Equity Ratio for Credit, Operating and Market Risk-Weighted Assets" as stipulated in Chapter 2, and reports it to the Executive Risk Committee.

The Company established the "Trading Book Procedure" and "Market Risk Management Procedure" as internal guidelines for market risk management in the Executive Risk Committee. The "Trading Policy Guideline" sets out the basic principles of the definition and characteristics of trading positions, the range of financial instruments to be controlled, the control procedure, and valuation. In the "Market Risk Management Procedure," the Company has established work flows and procedures for systematically and efficiently recognizing, measuring, reporting and managing market risks arising from holding trading positions.
The Company limits the range of financial instruments that can be treated as trading positions to interest rate risk positions (derivatives positions whose interest rates are based on the underlying assets). In the case of expanding the range of financial instruments subject to changes in business plans, the details of financial instruments, transaction departments, and management limits and others should be documented and approved by management.

As at the reporting date, there is no market risk management position held by the Company.

Market risk Management for Non-trading positions

The market risk for non-trading positions is the interest rate risk arising from the maturity mismatch between interest-bearing assets and interest-bearing debt due to interest rate fluctuations. The Company measures and manages interest rate risk using the standard method as stipulated in Chapter 2 of the "Detailed Regulations on Supervision of Banking Business" (Attachment 9-1) "Standard for Calculation of Interest Rate Risk". The Company calculates interest rate VaR to measure fluctuations in net asset value and interest rate EaR to monitor changes in net interest income every month and reports it to the Executive Risk Committee.

Risk is measured using an interest rate VaR that represents the maximum possible loss amount that could occur under a confidence level of 99.90% for interest risk. The measurement results of risk as at December 31, 2017 and 2016, are as follows:

(in Korean won)	**2017**	**2016**
Interest Rate VaR	₩ 22,320,997,243	₩ -

24-5. Operating Risk

24-5.1 Overview of Operating Risk

The Company defines operational risk as risk of loss resulting from inadequate or failed internal processes, people, systems and external events. Operation risks include legal risks, but do not include strategy and reputation risks. The legal risks include, but are not limited to, exposures to punitive damages and personal agreements resulting from fines, penalties, and surveillance actions.

24-5.2 Management of Operating Risk

Through the operational risk management system that has been implemented in 2017, the Company is scheduled to systematically accumulate and manage operating risk events and loss data generated by the Risk & Control Self Assessment (RCSA) and KRI (Key Risk Indicator), which are means for managing operational risks.

24-6. Capital Risk

The Company complies with the capital adequacy standard established by the Financial Services Commission. The capital adequacy standard is applied in line with global standards, such as those recommended by the Basel Committee on Banking Supervision in the Bank for International Settlements. However, different levels of regulations are applied in consideration of the business style according to the type of authorization and size of the bank. Accordingly, the Company complies the minimum capital ratio of risk-weighted assets based on Basel I standards by 2019 and plans to comply the minimum capital ratio based on the Basel III standard from 2020.

The capital ratio is calculated by dividing the amount of equity capital based on the financial statements by the total amount of risk-weighted assets. As at December 31, 2017, the Company is required to maintain the minimum capital ratio of at least 8.0%.

Details of the Company's capital adequacy ratio in line with Basel I requirements as at December 31, 2017 and 2016, are as follows:

(in Korean won)	**2017**	**2016**
Equity Capital		
Tier I Capital	₩ 589,569,848,284	-
Tier II Capital	21,767,708,480	-
	611,337,556,764	-
Risk-weighted assets[1]	4,448,358,566,354	-
Equity Capital (%)	13.74%	-
Tier I Capital (%)	13.25%	-

[1]Risk weighted assets are measured using the risk weighted calculation standard based on Basel I

In addition to the capital ratio, the Company conducts a capital adequacy assessment to assess whether the Company has adequate capital to manage the significant risks.

The assessment of the capital adequacy is conducted by calculating the amount of capital (internal capital) necessary to cover the important risks that the Company faces when taking into account its operating environment, business goals, crisis situation, etc. The assessment is to ensure that the available capital of the bank(substantially available capital to compensate for management losses) can be maintained at an appropriate level that exceeds the required capital.

The Company determines internal capital limits(risk appetite) within the range of available capital in consideration of the size and quality of current and future available capital, level of risk tolerance, and business strategy and sets a limit for each type of risk (credit, market, operation, interest rate, etc.) by dividing the internal capital limit determined considering business strategy and characteristics by type of risk. Monthly monitoring is conducted to ensure that each risk type is managed within the limits set for each type of risk, and the results of the monitoring are reported to the Board Risk Committee and the Executive Risk Committee. In case of exceeding the limit of internal capital, the Company manages the adequacy of its capital by restricting the limits for each type of risk, resetting internal capital limits, establishing a risk reduction plan, and raising capital. Countermeasures of the risk are reviewed and approved by the Board Risk Committee and the Executive Risk Committee.

24-7. Fair Value Disclosures

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period.

If the fair value of financial instruments that are not traded in an active market, fair value is measured either by using a valuation technique or obtained from independent third-party valuation service. The Company uses diverse valuation techniques using reasonable assumptions based on relative market conditions at the end of each reporting period.

24-7.1 Financial Instruments Measured at Amortized Cost

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

	Measurement methods of fair value
Cash and due from financial institutions	The carrying amount of cash is reasonable approximation of fair values and most deposits have floating interest rate or a short-term maturity. Therefore, the carrying amount is regarded as representative of fair value.
Loans	DCF(Discounted Cash Flow) Model is used to determine the fair value of loans.
Held-to-maturity financial assets	The fair value is measured at the lower value of the unit prices of the recent trading days provided by FN Pricing and KIS Pricing.
Deposits and debts	The carrying amount of demand deposits is regarded as representative of fair value because they are payable on demand. The fair value of other deposits and borrowings is measured by discounting the contractual cash flows at the market interest rate that takes into account the residual risk.
Other financial assets and liabilities	The carrying amounts of other financial assets and liabilities 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.

Carrying amounts and fair values of financial instruments at amortized cost as at December 31, 2017 and 2016, are as follows:

(in Korean won)	2017				
	Carrying amount				
	Balance	Unamortized balance	Allowance	Total	Fair value
Assets					
Cash and due from financial institutions					
Cash and cash equivalents	₩ 2,502,431,400	₩ -	₩ -	₩ 2,502,431,400	₩ 2,502,431,400
Due from financial institutions	420,851,159,875	-	-	420,851,159,875	420,851,159,875
	423,353,591,275	-	-	423,353,591,275	423,353,591,275
Held-to-maturity financial assets	214,704,380,106	-	-	214,704,380,106	213,594,076,288
Loans					
Retails	4,621,831,541,158	18,091,415,358	(18,266,920,344)	4,621,656,036,172	4,615,008,588,176
Other financial assets	158,099,124,437	(118,798,251)	(38,873,863)	157,941,452,323	157,941,452,323
	₩ 5,417,988,636,976	₩ 17,972,617,107	₩ (18,305,794,207)	₩ 5,417,655,459,876	₩ 5,409,897,708,062
Liabilities					
Deposits	5,048,299,700,757	-	-	5,048,299,700,757	5,044,482,538,053
Other financial liabilities	118,179,791,801	-	-	118,179,791,801	118,179,791,801
	₩ 5,166,479,492,558	₩ -	₩ -	₩ 5,166,479,492,558	₩ 5,162,662,329,854

(in Korean won)	2016				
	Carrying amount				
	Balance	Unamortized balance	Allowance	Total	Fair value
Assets					
Cash and due from financial institutions					
Cash and cash equivalents	₩ 207,605,018,530	₩ -	₩ -	₩ 207,605,018,530 30	₩ 207,605,018,530
Due from financial institutions	17,425,556,130	-	-	17,425,556,130	17,425,556,130
	225,030,574,660	-	-	225,030,574,660	225,030,574,660
Other financial assets	2,198,056,618	(63,143,656)	-	2,134,912,962	2,134,912,962
	₩ 227,228,631,278	₩ (63,143,656)	₩ -	₩ 227,165,487,622	₩ 227,165,487,622
Liabilities					
Other financial liabilities	₩ 1,459,533,719	₩ -	₩ -	₩ 1,459,533,719	₩ 1,459,533,719

Fair value hierarchy classifications of the financial instruments not measured at fair value but for which the fair value is disclosed as at December 31, 2017 and 2016, are as follows:

(in Korean won)	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and due from financial institutions				
Cash and cash equivalents	₩ 1,000,000,000	₩ 1,502,431,400	₩ -	₩ 2,502,431,400
Due from financial institutions	-	420,851,159,875	-	420,851,159,875
	1,000,000,000	422,353,591,275	-	423,353,591,275
Held-to-maturity financial assets				
Debt securities	98,501,675,042	115,092,401,246	-	213,594,076,288
Loans				
Retails	-	-	4,615,008,588,176	4,615,008,588,176
Other financial assets	-	-	157,941,452,323	157,941,452,323
	₩ 99,501,675,042	₩ 537,445,992,521	₩ 4,772,950,040,499	₩ 5,409,897,708,062
Deposits	₩ -	₩ 1,696,184,512,278	₩ 3,348,298,025,775	₩ 5,044,482,538,053
Other financial liabilities	-	-	118,179,791,801	118,179,791,801
	₩ -	₩ 1,696,184,512,278	₩ 3,466,477,817,576	₩ 5,162,662,329,854

(in Korean won)	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and due from financial institutions				
Cash and cash equivalents	₩ -	₩ 207,605,018,530	₩ -	₩ 207,605,018,530
Due from financial institutions	-	17,425,556,130	-	17,425,556,130
	-	225,030,574,660	-	225,030,574,660
Other financial assets	-	-	2,134,912,962	2,134,912,962
	₩ -	₩ 225,030,574,660	₩ 2,134,912,962	₩ 227,165,487,622
Other financial liabilities	₩ -	₩ -	₩ 1,459,533,719	₩ 1,459,533,719

Valuation techniques and inputs used in the fair value measurements as at December 31, 2017 and 2016, are as follows:

(in Korean won)	Level	2017	2016	Valuation techniques	Inputs
Cash and cash equivalents	2	₩ 1,502,431,400	₩ 207,605,018,530	-	-
Due from financial institutions	2	420,851,159,875	17,425,556,130	-	-
Held-to-maturity financial assets	2	115,092,401,246	-	Discounted cash flow	Discount rate
Loans	3	4,615,008,588,176	-	Discounted cash flow	Credit spreads, Other spreads, Interest rate
Other financial assets[1]	3	157,941,452,323	2,134,912,962	-	-
		₩ 5,310,396,033,020	₩ 227,165,487,622		
Deposits	2	₩1,696,184,512,278	₩ -	Discounted cash flow	Discount rate
Deposits	3	3,348,298,025,775	-	Discounted cash flow	Other spreads, Interest rate
Other financial liabilities[1]	3	118,179,791,801	1,459,533,719	-	-
		₩5,162,662,329,854	₩ 1,459,533,719		

[1] Valuation techniques and inputs of the financial instruments whose book amount is a reasonable approximation of fair value, are not disclosed.

(a) Financial Institutions measured at fair value

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

- Level 1: Financial instruments measured at quoted prices from active markets are classified as level 1.

- Level 2: Financial instruments measured using valuation techniques based on inputs that are observable in the market are classified as level 2.

- Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not observable in the market are classified as level 3.

(in Korean won)	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Available-for-sale financial assets				
Debt securities	₩ 238,970,467,384	₩ 69,973,976,155	₩ -	₩ 308,944,443,539

There was no financial assets recognized at fair value as at December 31, 2016.

There are no transfer between levels 1 and 2 of financial asset measured at fair value for the periods ended December 31, 2016 and 2017.

Valuation techniques and the inputs

Valuation techniques and inputs used in levels 2 fair value measurements as at December 31, 2017 and 2016, are as follows:

(in Korean won)	**Valuation techniques**	**2017**	**2016**	**Inputs**
Available-for-sale financial assets	Discounted cash flow	₩ 69,973,976,155	₩ -	Discount rate

There are no financial institutions classified as level 3 as at December 31, 2017 and 2016.

24-8. Offsetting Financial Assets and Financial Liabilities

The following table presents the financial assets that are offset, or subject to enforceable master netting arrangements and other similar agreements as at December 31, 2017 and 2016.

(in Korean won)	2017					
				Amounts not offset		
	Gross amounts of recognized financial assets	**Gross amounts of recognized financial liabilities set off in the statement of financial position**	**Net amounts presented in the statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Domestic exchange settlement debits	₩ 226,690,674,271	₩ (82,750,833,169)	₩ 143,939,841,102	₩ -	₩ -	₩ 143,939,841,102

As at December 31, 2016, there were no financial assets that are offset, or subject to enforceable master netting arrangements and other similar agreements.

The following table presents the recognized financial liabilities that are offset, or subject to enforceable master netting arrangements and other similar agreements as at December 31, 2017 and 2016.

(in Korean won)	2017					
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the statement of financial position	Net amounts presented in the statement of financial position	Amounts not offset: Financial instruments	Amounts not offset: Cash collateral received	Net amount
Domestic exchange settlement debits	₩ 118,403,728,464	₩ (82,750,833,169)	₩ 35,652,895,295	₩ (35,652,895,295)	₩ -	₩ -

As at December 31, 2016, there were no financial liabilities that are offset, or subject to enforceable master netting arrangements and other similar agreements.

25. Contingencies and Commitments

There are no pending litigations related to the Company as at December 31, 2017.

There are no purchase commitment and residual cash deficiency support agreement at the date of issuance as at December 31, 2017.

26. Leases

26.1 Finance Lease

There are no future minimum lease payments as at December 31, 2017 and 2016.

26.2 Operating Lease

Total minimum lease payments in relation to non-cancellable operating leases that are payable at the end of the reporting period are as follows:

(in Korean won)	2017	2016
Within 1 year	₩ 44,568,000	₩ 44,568,000
1~5 years	34,882,000	40,876,000
	₩ 79,450,000	₩ 85,444,000

27. Supplemental Cash Flow Information

Non-cash transactions for the periods ended December 31, 2017 and 2016, are as follows:

(in Korean won)	2017	2016
Reclassification from advance payments to property and equipment and intangible assets	₩ 42,146,230,530	₩ -
Changes in the fair value of available-for-sale financial assets	(889,211,873)	-

28. Related Party Transactions

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

(in Korean won)

Type	Name of entity	Receivables /Payables	2017	2016
Parent Company's subsidiary	Korea Investment & Securities Co., Ltd.	Due from financial institutions and others	₩ -	₩ 205,590,115,484

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

			Revenue		Expense	
Type	Name of entity	Details	2017	2016	2017	2016
Parent Company	Korea Investment Holdings Co., Ltd	Interest	₩ -	₩ -	₩ 6,986,338	₩ -
Parent Company's subsidiary	Korea Investment & Securities Co., Ltd.	Interest and others	-	1,091,407,230	4,099,533	-
			₩ -	₩ 1,091,407,230	₩ 11,085,871	₩ -

The compensation to key management for the periods ended December 31, 2017 and 2016, consists of:

(in Korean won)		**2017**		**2016**
Salaries and short-term compensation	₩	1,084,354,836	₩	450,000,000
Post-employment benefits		56,250,000		46,986,669
	₩	1,140,604,836	₩	496,986,669

Key management refers to the directors including nonexecutive directors who have the rights and responsibilities over the Company's business planning, managing, and supervision.

Report of Independent Auditor's
Review of Internal Accounting Control System

To the President of
KakaoBank of Korea Corp.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of KakaoBank of Korea Corp. (the "Bank") as at December 31, 2017. The Bank's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as at December 31, 2017, in all material respects, in accordance with the IACS standards."

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

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

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

Our review is based on the Company's IACS as at December 31, 2017, and we did not review management's assessment of its IACS subsequent to December 31, 2017. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers

Samil PricewaterhouseCoopers

February 28, 2018

Report on the Operations of the Internal Accounting Control System

To the Board of Directors and Auditor (Audit Committee) of
KakaoBank of Korea Corp.

I, as the Internal Accounting Control Officer ("IACO") of KakaoBank of Korea Corp. (the "Company"), assessed the status of the design and operations of the Company's internal accounting control system ("IACS") for the year ended December 31, 2017.

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

Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as at December 31, 2017, in all material respects, in accordance with the IACS standards.

January 30, 2018

Ho Beom Ryu, Internal Accounting Control Officer

Young Woo Lee, Joint Representative Director
Ho Young Yun, Joint Representative Director